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ABSTRACT

This document is a transcript of hearings on evaluation of the Comprehensive Employment and Training Act (CETA). Focus of the hearing was on mismanagement and misappropriation of CETA contract funds, especially in the last days of the Carter administration. Testimony was given by various present and former officials of the Department of Labor, which administers the program. During the hearing it was alleged that certain Department of Labor officials had blocked needed audits of questionable programs for political reasons. It was also alleged that certain CETA funded programs had grossly mismanaged their funds, resulting in waste and possible fraud. Programs in Washington, D.C. and South Carolina were especially noted as questionable and needing audits. In addition to the testimony of witnesses at the hearing, the transcript includes prepared statements by former and present officials, attorneys for various CETA projects, newspaper articles, and other documents. (KC)

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EVALUATION OF COMPREHENSIVE EMPLOYMENT AND TRAINING PROGRAMS, 1981

HEARING

BEFORE THE

COMMITTEE ON LABOR AND HUMAN RESOURCES UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

FIRST SESSION

ON

OVERSIGHT INTO THE SELECTION, PERFORMANCE, AND EVALUATIONS OF GRANT AND CONTRACT AWARDEES UNDER THE COMPREHENSIVE EMPLOYMENT AND TRAINING ACT OF 1973

OCTOBER 20, 1981

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EVALUATION OF COMPREHENSIVE EMPLOYMENT AND TRAINING PROGRAMS, 1981

TUESDAY, OCTOBER 20, 1981

U.S. SENATE,
COMMITTEE ON LABOR AND HUMAN RESOURCES,
Washington, D.C.

The committee met, pursuant to notice, at 9 a.m., in room 4232, Dirksen Senate Office Building, Senator Orrin G. Hatch (chairman of the committee) presiding.

Present: Senators Hatch, Quayle, Kennedy, and Pell.

OPENING STATEMENT OF SENATOR HATCH

The CHAIRMAN. Today the Senate Labor and Human Resources Committee opens its hearings into the selection, performance, and evaluations of grant and contract awardees under the Comprehensive Employment Training Act of 1973, often called CETA.

We are also going to examine how certain awards were made to contractors in the closing days of the last administration. There is special concern for how discretionary funds are utilized and spent in such situations, and we hope to cast some light on this entire area.

The CETA legislation established a framework in which programs could be set up to provide for the employment and training of underemployed and economically disadvantaged persons around the country. Most such undertakings are carried out by prime sponsors such as State and local governments.

Congress granted special consideration in this legislation to persons struggling against excessive disadvantages or for labor markets rated as extremely depressed. These programs were to be overseen and administered by and through the Office of National Programs of the Labor Department in Washington.

A good many of these programs have been efficiently administered and have, to a certain extent, fulfilled the expectations of the sponsors of the act. Regrettably, this is not true across the board, as the committee's inquiry has established.

While the administration has announced its intent to terminate the CETA program, there are billions of dollars outstanding at this time in its various elements around the Nation. Also, the abuses in the program have been publicized often and consistently. Our review of the audits of these ventures, plus the fine work of the GAO in these areas, leads the committee to feel that some public airing of the situation is required; hence this hearing.

Our review efforts, which have had the full cooperation of the Labor Department, have uncovered one serious situation after an-

other. Waste and abuse of many kinds have emerged. The audits of the program conducted by contract auditors around the country reveal that the abuses are widespread, that the Department was being informed on a regular basis of these findings, and that nothing was done to correct the situation.

As a result, many programs fell far short of expectations, substantial sums of money were lost, and many people the program was designed to assist were deprived of the intended assistance.

The committee is especially concerned by evidence that specific Federal rules and regulations governing how Federal funds are committed to grantees and contractors have been violated often and with impunity. Such requirements are put in place not to hinder benign attempts to aid people but to insure that the undertakings are carried out as intended.

There is a need for certain programs, and I shall continue to support such efforts, but on a selected basis.

Today we shall examine how such abuses did take place and how CETA was in many ways brought into disrepute.

In March of this year, after hearing numerous allegations of serious deficiencies, I asked the General Accounting Office in my capacity as chairman to review the Labor Department's Office of National Programs award selection process and to report their findings to the committee. Several such reports have been received and have been released. Copies of them are being made available today.

The Washington Post, among other papers, in a March 9 article, reported on further findings concerning "last minute" or "midnight" contract awards funded by lame duck administrations in the closing days of the last administration.

Specifically, these involved: one, overcommitment of appropriated funding; two, absence of negotiations with, or evaluations of, prospective contractors; three, authorization of several additional contracts contrary to the informed judgments of the Department's representatives; and, four, unjustified sole source awards which ignored rules governing competition.

In the March 9 "Washington Post" article, the former Assistant Secretary of Labor for Employment and Training explained away such last minute funding commitments with this quote: "My view of the job was to see that these organizations could continue to operate long after we left office," because it was clear to him that the philosophy of the new administration was not one of support for the new kinds of training and job programs that minorities need.

It could be argued and perhaps excused if a contractor or grantee up for funding renewal could be granted a one-time exception in the form of a telegram authorizing them to temporarily continue a project, if all negotiations had been completed and documented, if the Department's program representatives had given some formal, documented seal of approval, or if it were merely a matter of preventing paperwork requirements from severely disrupting a project with an unquestioned positive record of performance.

It is quite another matter when, as GAO discovered, required negotiations had not even begun, let alone been completed. This was found in many cases. It is still another matter when, as GAO

found, negotiations had actually occurred and specific recommendations by the Department's program representatives were totally ignored or specifically contradicted by higher-ups. This was found to be the case in numerous instances.

And it is again another matter entirely when it is discovered that the performance records of many contract awardees were ignored when certain awards were made. In each of these many situations large sums of public monies were awarded. The GAO contends that the office involved would have overspent its CETA budget by at least $42 million, which of course would be a violation of the law.

During the last 4 months of the last administration, GAO found that 287 training grants and contracts were awarded worth more than $115 million. During that time period, at least 70 telegrams were sent to potential contractors telling them to go ahead and start spending money on CETA contracts that would be negotiated later. This compares with only 20 such telegrams sent during all the fiscal year of 1979, according to the GAO findings.

For example, on January 15, 1981, Mr. Green's office notified Dr. Benson E. Penick, a Washington researcher, that he could spend an initial $20,000 on a proposal to study the job prospects of disadvantaged teenaged mothers. But the Labor Department's own contracting officer had recommended against the award, GAO said, because the proposal was deemed too vague and the objectives found to be a "mishmash * * * of services." GAO also stated that Penick had submitted bills to Labor that were highly questionable.

Similarly, on January 5 Green personally ordered a $150,000 contract renewal for the National Association for the Southern Poor in Roanoke, GAO said. Green's subordinates had reported that the job training program was having a negligible impact on youth unemployment and could not properly supervise its young trainees in Virginia and North Carolina.

GAO, saying that Labor officials rarely monitored the financial performance of these contractors, called for more inspections and written assessments. Labor also handed out noncompetitive contracts without justification in nearly half the cases they surveyed, according to GAO.

One such contract, for $199,000, went to Southern Vocational College in Tuskegee, Ala., on January 19, even though Labor auditors had accused the college of improperly spending $550,000.

The list could go on and on, but the GAO reports will speak for themselves. The committee used the GAO in order to obtain an objective evaluation and avoid any accusations of nonobjectivity.

As the GAO work went on, the committee began to review all appropriate materials, in the process interviewing Labor Department personnel who possessed first-hand knowledge of what had transpired. Thousands of documents were examined. Several other Federal agencies and their officials rendered assistance. Today we will make public many of the findings of our inquiry.

We will hear today from the GAO; the current Assistant Secretary of Labor for the Employment and Training Administration, Mr. Albert Angrisani; a panel of Labor officials with first-hand knowledge of the situation under review; the Inspector General of the Labor Department, Mr. Tom McBride; a former Assistant In-

spector General for Audit at Labor who presently occupies the same position at the Agriculture Department, Mr. Gerald Peterson; the former Assistant Secretary of Labor for Employment and Training, Mr. Ernest Green; and the former Director of the Office of National Programs, Mr. Lamond Godwin.

GAO will elaborate on their findings, which I have alluded to already. The current Assistant Secretary of Labor will report on the situation he inherited when he assumed office on January 20 of this year, the immediate actions he was required to take, and the directive he recently issued to deal with GAO's findings and those of his own internal task force. He will also answer questions on new guidelines and procedures he will be implementing designed to assign responsibility and guarantee accountability.

We are also going to explore with Mr. Angrisani certain mysteries of grant termination. One case of immediate interest involves a $20-million grant to PUSH For Excellence of Chicago.

As we found out in our inquiry into the National Cancer Institute, Federal grants, unlike contracts, cannot be unilaterally terminated at the Government's convenience. To terminate, detailed negotiations are required, culminating in the grantee agreeing to termination.

Since this April, Labor has sought just such a goal in a diligent manner in regard to this particular grant to PUSH For Excellence. All to no avail until the committee wrote that organization on September 24, 1981. The committee received a response from Chicago, dated October 2, 1981, informing the committee that PUSH had, on its own, terminated the grant on September 29, 1981. A salutory conclusion.

What makes this conclusion so unique is that committee staff, after receipt of this letter from PUSH, was informed by the Labor Department's Solicitor's Office that termination negotiations were still going on. Evidently PUSH notified the committee but had perhaps forgotten to notify the Department of Labor that no further reason existed for additional negotiations.

Our panel of Labor Department officials will be representative of all levels of the program office, including the acting administrator of the Office of National Programs, program directors, and Government authorized representatives frequently referred to as "program reps." Their evaluations are the only effective link to provide vital day-to-day assessments on an awardee's capabilities or past performance. Only in this way can we assure that allocated public funds go to those who have shown a "demonstrated effectiveness"—a phrase we will certainly hear more about as this hearing progresses.

It is vital to underscore this criterion, established by the Labor Department and reinforced by its Solicitor's Office in an opinion to the General Accounting Office—page 3, HRD81-145.

We will hear from Labor's Inspector General regarding certain criminal inquiries his office is presently pursuing.

We will also hear from a former Assistant Inspector General of Labor for Audit, now with the Agriculture Department, concerning his efforts, begun in 1979, to implement a system of surveillance auditing to target, discover, and prevent the very type of program deficiencies we will be discussing.

His efforts, at first praised by a former Inspector General, were cut short without substantive justification when he announced his first test example—an example, by the way, which had already received substantial notoriety here in Washington—Pride, Inc. He was told to halt and kill his professional work for fear that it would embarrass and expose political allies of higher-ups.

Finally, we will hear from two former Labor Department officials, Mr. Ernest Green, former Assistant Secretary for Employment and Training, and Mr. Lamond Godwin, former Director of the Office of National Programs.

We wish to inquire of them about their professional roles and specific actions as Government officials concerning selection of contract awardees. We are especially concerned about sole source contracting. We wish to hear their views on the General Accounting Office's findings regarding last-minute contracting.

As chairman of the committee, I have already asked the General Accounting Office, the Inspector General's Office, and the current Assistant Secretary to continue their scrutiny of several specific cases. Also, I have asked them to provide additional evaluations of work performed by a number of current awardees.

This brings me to a most disturbing area of our inquiry. At 9 a.m., on January 20, 1981, articles of incorporation filed with the Office of the Recorder of Deeds in Washington were filed, forming a corporation under laws of the State of Delaware, for Green-Herman & Associates, for the purposes of conducting business as a consultant and marketing analysis service.

In a letter dated June 23 of this year, I asked Mr. Green to provide the committee with a list of any and all contracts, grants, or subgrants that his firm had received since its incorporation. To avoid any misunderstanding, I further asked Mr. Green to provide an accounting of all funds received from prime contractors, subcontractors, or special projects utilizing Labor Department funds, directly or indirectly.

This letter was hand-delivered by the professional staff of the committee to Mr. James Christian, attorney for Green-Herman & Associates. Mr. Christian, authorized to respond for Green-Herman & Associates replied in a letter dated July 2, 1981, with regard to Green-Herman, that: one, "It has not received any contracts, subcontracts, grants or subgrants from the U.S. Department of Labor under the Comprehensive Employment Training Act;" two, "It has not received any funds from prime or subcontractors under any other Federal grant or contract program;" and, three, "It has not set up any service projects utilizing Labor Department funds directly or indirectly." The letter goes on to say, "We trust that the foregoing is responsive to your request."

However, the committee has discovered in its review of Labor Department files that a prime sponsor, Mobile County Consortium in Mobile, Ala., had awarded a subcontract to Mel Harris Associates, a management consultant firm of Crystal, Minn.

Mel Harris, in its turn, executed a consultant subcontract on April 6, 1981, with Green-Herman & Associates for the sum of $75,000. This seems to contradict the contents of Mr. Christian's July 2 communication to the committee.

Naturally, this gives rise to certain questions in the mind of any reasonable person. These include: one, are there any other such contracts that may have accrued to Mr. Green and his firm that we still know nothing about? two, if so, in what amounts of money? and, three, does the Green-Herman firm possess any other contracts of any kind, with any organizations which to their knowledge are the recipients of Labor Department CETA contracts and funds?

Unfortunately, the Employment and Training Administration has no way of retrieving such information at this time, except by asking awardees themselves. We will have to await complete audits that itemize each subcontractor's accounts, and until such time as the Inspector General can complete his investigation and report to us.

Finally, we must at least address the principle of stewardship. The worst abuses in government are almost always done in the name of altruism and with an allegedly benign intent. Everyone wants to do the right things and often views the Government as the appointed tool with which to do the job.

I am not seeking out any special program, group, or contract to make an example of in a hearing situation. Rather, the committee is attempting to show that even the most altruistic, sincere efforts can run afoul of the legitimate institutional safeguards the Government must erect to protect itself and the public. That is what we are seeking to highlight today.

Because of the nature of this inquiry, we will place all witnesses under oath with regard to questions the committee members have.

We will now turn to Senator Kennedy, the ranking minority member.

Opening Statement of Senator Kennedy

Senator Kennedy. Thank you very much, Mr. Chairman.

One of the hallmarks of employment and training policies over the decades has been a bipartisan cooperation. All of us recognize that a healthy economy requires a trained and productive work force. There has also been consensus that the Federal Government has a special responsibility to assist disadvantaged youth and adults who have missed out on other opportunities to become skilled and employed.

I know Senator Hatch has been a strong supporter of Job Corps; and I have often heard him express his high regard for the program run by OCI, RTP, and SER. We are continuing this bipartisan effort as we consider the reauthorization of CETA and vocational education.

Because of the importance of these programs, it is essential that they be administered efficiently and fairly, with full public confidence. Today's hearing will cast serious doubt as to whether the administration of these programs during the Carter administration met this test.

Serious allegations will be made about the conduct of senior Federal officials in the last days of the Carter administration. The charges imply that millions of Federal dollars were squandered on hundreds of last minute contracts with organizations of question-

able merit. There is the even more troubling report that the individuals responsible for these contracts have benefited personally from these awards since leaving the Government.

In addition, we will hear allegations that program audits were blocked or discontinued for political reasons, in spite of evidence of wrongdoing.

If these allegations are true, they represent the most serious possible betrayal of the public trust.

This committee has an obligation to determine where the truth lies, to hear from all sides—the accused as well as the accusers. To do less would be a betrayal of our public trust and might permanently damage the reputation of innocent individuals.

I believe the committee needs to determine the answers to the following questions:

Were I.G. audits and reviews blocked for political reasons; and, if so, who blocked them, and why?

Were millions of dollars inappropriately committed during the final days of the Carter administration? If they were, who was responsible, and what chain of command was involved?

Did anyone benefit personally and improperly from these end-of-year awards?

To what extent were the problems identified by GAO institutional, procedural problems; and to what extent were they problems caused by particular individuals acting inappropriately?

Mr. Chairman, I believe we ought to take the time necessary to get to the truth. We ought to hear from all those who may be accused today. We ought to hear from the Secretary of Labor at that time, Mr. Marshall. And we ought to pursue this expeditiously, so that the record can be complete.

Finally, Mr. Chairman, whatever we find, I hope we will not lose sight of the real goals and objectives of the CETA program. As we meet here today, unemployment stands at 7.5 percent. Only 2 days ago the President acknowledged that the country is in a recession. For the disadvantaged youth and adults whom CETA serves, it is a depression.

Part of making Government work requires rooting out corruption wherever it is found. Equally important is the need for Government to respond compassionately and effectively to those in most distress. Today in America, that requires getting people back to work. I hope we will pursue both goals vigorously in the weeks ahead.

The CHAIRMAN. Thank you, Senator Kennedy.

We will now turn to Senator Quayle, who is chairman of the Employment Subcommittee and who has done a tremendous job as chairman and certainly is responsible for stopping the funds until we can get a handle on where we are. I agree with Senator Kennedy, we have to look at this matter as objectively as we possibly can.

Senator Quayle?

OPENING STATEMENT OF SENATOR QUAYLE

Senator QUAYLE. Thank you very much, Mr. Chairman.

I certainly want to compliment you for having these oversight hearings. I think one of the most important functions of a commit-

tee in the Congress is to have these types of hearings and an airing in public of concerns that you have and that others have.

I would also like to compliment Senator Kennedy on his statement, particularly on the bipartisan approach that we have had in the past in employment and training policies.

As Chairman Hatch pointed out, it is my subcommittee that has been dealing with the CETA reauthorization. We have had a number of hearings here in Washington and some around the country.

It is my intent to be able to produce a bipartisan package that will be introduced in December or January. We can have hearings on that systems delivery. I do not think it should be partisan.

I certainly commend your comments in that direction. We have worked together, and our staffs have worked together. Senator Hatch, who is an active and supportive member of my subcommittee, has been very, very helpful in this. His past experience with Job Corps and some of the other training programs should not go unnoticed.

I guess the question, Mr. Chairman, is: Where do we go from here? Based on conversations I have had with Mr. Angrisani and others I expect that we are going to get better management in the Employment and Training Administration, I fully expect that a number of the irregularities that will be and have been identified will be studied and corrective action will be taken.

I assume that we will ask the question: How did we get into this mess, and how are we going to get out of it? I think that is the challenge that lies before this committee.

I do not think anyone wants to do away with the Federal role of employment and training programs. I think it is vital, particularly with the economic considerations that we have and, more particularly, for the youth and minority youth that have this disastrous unemployment rate.

Mr. Chairman, we need to take a long, hard look at what has happened in CETA, what works, what did not work, and why. This certainly provides a backdrop for both the Congress and the administration to go ahead and make the necessary changes to see that the problems and mistakes are not repeated.

I assure you of my full cooperation, and I look forward to working with other members of this committee—both the majority and minority—in producing a bipartisan package that will enhance the availability of employment and training policies in this country.

The CHAIRMAN. Thank you, Senator Quayle.

Without objection, we will insert at this point the statement of Senator Gordon Humphrey.

[The prepared statement of Senator Humphrey follows:]

PREPARED STATEMENT OF SENATOR HUMPHREY

Senator HUMPHREY. Mr. Chairman, I'm sorry that other committee responsibilities will prevent me from attending the hearing on the oversight of CETA. I have had a longstanding concern with problems connected with CETA and have found particularly troublesome the many complaints concerning the administration of CETA grants and programs. I applaud the efforts of this administration to correct the errors of the past and commend the committee for its investigations of allegations of wrongdoing by CETA administrators. I will look forward to reading the testimony of the witnesses who will testify at today's hearing.

The CHAIRMAN. Our first witness is Mr. Gerald Peterson, a former Inspector General for Audit at Labor and currently in the same capacity at the Department of Agriculture.

Mr. Peterson, we are happy to have you with us today.

Would you prepare to be sworn? Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. PETERSON. I do.

The CHAIRMAN. Thank you, Mr. Peterson. Please go ahead.

STATEMENT OF GERALD PETERSON, ASSISTANT INSPECTOR GENERAL FOR AUDIT, DEPARTMENT OF AGRICULTURE; FORMER ASSISTANT INSPECTOR GENERAL FOR AUDIT, DEPARTMENT OF LABOR

Mr. PETERSON. Mr. Chairman, I have no prepared statement. I would like just to answer the questions the committee may have.

The CHAIRMAN. Mr. Peterson, in your position as Assistant I.G., Audit, at the Department of Labor, what was your reaction in 1979 when the forming of the I.G. Office appeared to make the auditor's role significantly different?

Mr. PETERSON. I was disappointed, to say the least. We were just at that point in time trying to get the I.G. concept implemented, and of course the fact that I was almost immediately taken off the job of auditing Youth Pride was a source of great disappointment to me.

The CHAIRMAN. What was her reaction?

Mr. PETERSON. Well, maybe I should just set the stage a bit.

Senator KENNEDY. Can we find out who "her" is, please?

Mr. PETERSON. Yes. The I.G. at that time was Ms. Marjorie Knowles.

For about a year prior to this the audit organization within the Department of Labor had been working on a new audit guide. To that point, auditors had not been much involved in fraud. The typical audit statement is the verification of a financial statement, and as such it did not involve itself in fraud or had not involved itself in fraud.

For about a year we had been working on a new instrument that would specifically look at fraud, and we had referred to it as a "surveillance audit guide."

Ms. Knowles came into the Department of Labor; and on May 18, I, in a memorandum, notified Ms. Knowles of the surveillance guide and our intention to use it, and to use it in the Washington, D.C. area. I spelled out to her in that memorandum the reason for using it in the Washington, D.C. area was that I wanted to be able to personally supervise the first usage of that guide.

Then on June 11 I specifically spelled out to Ms. Knowles the specific auditee that we were going to be testing this on, and this was Youth Pride, for a number of reasons—No. 1, it was a large, nonprofit known to have management as well as accounting problems; and No. 2—and maybe equally important—it was in the Washington, D.C. area where I could personally supervise the usage of that guide.

The CHAIRMAN. So you selected basically a Washington, D.C. CETA program as your first audit?

Mr. PETERSON. That is correct.

The CHAIRMAN. Did you have any other reasons for selecting CETA?

Mr. PETERSON. No, I think those were the primary reasons, Mr. Chairman.

The CHAIRMAN. What was that organization you decided to investigate?

Mr. PETERSON. Youth Pride.

The CHAIRMAN. This is a CETA-funded organization?

Mr. PETERSON. That is correct.

The CHAIRMAN. Did Ms. Knowles approve your suggestion to audit Youth Pride?

Mr. PETERSON. She did not. As a matter of fact, I have the original memo. She did not respond to that memo but instead called me into her office and———

The CHAIRMAN. Did she give any reasons why she did not respond to that memo?

Mr. PETERSON. She called me into her office and told me it was not very smart selecting Youth Pride and that in fact Mayor Washington's inauguration initiated from Youth Pride and that I should select another grantee for the purposes of testing the guide.

The CHAIRMAN. Did she explain any reasons why?

Mr. PETERSON. No, she would not explain anything beyond———

Senator KENNEDY. Are you talking about Mayor Washington?

Mr. PETERSON. Yes, that is correct.

Senator KENNEDY. On Youth Pride?

Mr. PETERSON. Yes, that is correct.

The CHAIRMAN. Did you try to explain to her why you wanted to do this?

Mr. PETERSON. I had explained in memos. She fully understood why we wanted to.

Senator KENNEDY. Could I interrupt? Just so we get the names, because these accusations are terribly important—are you talking about Mayor Washington or Mayor Barry? Mayor Barry was the one who was involved initially in Youth Pride.

Mr. PETERSON. I am sorry. It was Mayor Barry.

Senator KENNEDY. I think it is terribly important, now, that we be very careful about people's names that we are using and the facts that surround them. These are serious allegations; we want to come to grips with them; but you have just mentioned a person's name now—Mayor Washington—and that was a mistake. I think it is very important.

There is a lot of attention being given to these accusations. They are extremely serious. If we are going to conduct these hearings, they are going to be done with fairness and equity with regard to all of these people.

I just want to caution the witness. If you want us to give credence to your testimony, be very careful about whose names you mention and the circumstances that surround them.

Thank you.

The CHAIRMAN. Fine. So we are clear then that it was Mayor Barry?

Mr. PETERSON. Yes, it was Mayor Barry.

The CHAIRMAN. What did she say? Did she give you any reason at all why she did not want you to look into this?

Mr. PETERSON. No, she would not go beyond that. When I tried to discuss it in terms of management requirements and the requirement to test this new guide locally, she simply told me that the case was closed and that I should select another target for the surveillance audit guide.

The CHAIRMAN. What did you do?

Mr. PETERSON. What did I do?

The CHAIRMAN. What did you do about that?

Mr. PETERSON. Well, I went back, and we selected another nonprofit in Milwaukee to test the guide on. We were unable to find another nonprofit activity in the Washington area that was suitable for testing the guide.

The CHAIRMAN. It is my understanding that you left your position during that very same year. Is that correct?

Mr. PETERSON. Yes, I did.

The CHAIRMAN. When was that?

Mr. PETERSON. I think I actually left the position in September of that year, but I believe I accepted the job in the Department of Agriculture in July of that year.

The CHAIRMAN. Did Ms. Knowles or officials in the Department of Labor pressure you to leave in any way?

Mr. PETERSON. No, they did not pressure me to leave. That was my decision.

The CHAIRMAN. Did their restrictions on your activities as an I.G. auditor have any influence on your leaving at all?

Mr. PETERSON. They very definitely did.

The CHAIRMAN. Would you explain that to us?

Mr. PETERSON. I just did not believe that I could be an active participant in installing and implementing the I.G. concept with that type of supervision. I felt that I needed to move to another agency if I was going to be effective.

The CHAIRMAN. When Ms. Knowles turned you down on your request to audit Pride, Inc., did she do so—what actually did she say to you?

Mr. PETERSON. I have a statement that I made to an investigator sometime after that. Maybe I should just read it.

The CHAIRMAN. Go ahead.

Mr. PETERSON. She said, "This is not too smart," referring to the memorandum of June 11, 1979, to her, from both myself and a Paul Lehrman, concerning the proposed audit of Youth Pride within the District of Columbia.

When I questioned her as to what she meant, she replied, "Don't you know that the mayor's (Marion Barry) inauguration parade started at Pride?" When I expressed ignorance to the fact that it did, and if so what possible effect it could have on the mayor, she advised me that, we're not going to do it.

I responded to the effect that we were only going to audit within the last year or two and it should have no effect on Mayor Barry. She then stated that, "He's still closely related to it (Pride)," and then advised me that we would have to come up with something else.

That was the gist of the entire conversation.

The CHAIRMAN. Was it your impression that Ms. Knowles' decision was judgmental—was a judgment decision—or was it a political decision, in your belief?

Mr. PETERSON. I did not at that point in time and have not since made that judgment. I do not know the reason for the comment. I just knew that I could not work in that environment.

The CHAIRMAN. Do you believe it was a management decision made from the top down?

Mr. PETERSON. She was the manager, and she made the decision. It was not based on management information, because the management information that was on hand would have suggested, as it did to me, that Youth Pride was an appropriate place to test the guide. But I do not know the considerations that were in Ms. Knowles' mind when she made that decision.

The CHAIRMAN. I see.

At the Department of Agriculture, it is my understanding that Thomas McBride was your immediate superior as Inspector General.

Mr. PETERSON. That is correct.

The CHAIRMAN. He is the same individual who is now the Inspector General of the Department of Labor. Is that correct?

Mr. PETERSON. That is correct.

The CHAIRMAN. Did Mr. McBride allow you to work without interference at that time in that position?

Mr. PETERSON. He certainly did, yes.

The CHAIRMAN. Senator Kennedy?

Senator KENNEDY. You are telling this committee that you were blocked from conducting investigations in areas you considered critical for political reasons?

Mr. PETERSON. I am not telling them, Senator, that it was for political reasons. As I have said, I did not make that judgment. All I can do is relate to this committee the facts and circumstances surrounding it.

Senator KENNEDY. Do you have any reason to believe that the order came from higher up?

Mr. PETERSON. I have no reason to believe that at all.

Senator KENNEDY. Do you have any knowledge whether other audits were being conducted in the D.C. area at that time?

Mr. PETERSON. There were no audits being conducted in the D.C. area to my knowledge at that particular time. There was one audit scheduled for later in the summer of the summer youth employment program, but it was not in any way involved in Pride. Pride was not one of the targets of that audit.

Senator KENNEDY. As I understand, these allegations first became public in an article in the Washington Post of December 5, 1979. Is that correct?

Mr. PETERSON. That is correct.

Senator KENNEDY. Were investigations conducted then?

Mr. PETERSON. Yes, they were.

Senator KENNEDY. What is the nature of those investigations, and who conducted them?

Mr. PETERSON. I am not totally sure, sir, what the nature of the investigation is.

Senator KENNEDY. Do you know, from your own knowledge, if the Justice Department looked into these allegations?

Mr. PETERSON. Yes, I do know that the Justice Department looked into it.

Senator KENNEDY. Then tell us what you know about that.

Mr. PETERSON. What I know is that the Justice Department did look into the allegations and did take a statement from me.

Senator KENNEDY. The allegations that you are making here today?

Mr. PETERSON. That is correct.

Senator KENNEDY. OK. What do you know about that investigation?

Mr. PETERSON. And the Justice Department concluded from that investigation that no criminal activity had taken place.

Senator KENNEDY. Do you have that information, Mr. Chairman?

The CHAIRMAN. I am sorry, I missed that, Senator Kennedy.

Senator KENNEDY. That the Justice Department looked into these allegations that first came out in the newspaper some time ago, and that the witness is saying that the Justice Department looked into them, and that the Justice Department made a judgment about it that there was not an adequate basis for investigation, or they did not believe there was sufficient information for investigation.

The CHAIRMAN. We are aware of that, but the authority, of course, really goes right to Ms. Marjorie Knowles to make the decision for the Justice Department. That is what is wrong over there.

Be that as it may, please go ahead.

Senator KENNEDY. She worked for the Labor Department.

The CHAIRMAN. I understand, but she worked in conjunction with the Justice Department, as I understand it.

Senator KENNEDY. They were investigating her. They were investigating her.

I would like to know, since these allegations have been made against her, if she has been invited to this hearing.

The CHAIRMAN. No, but we will be happy to do it.

Senator KENNEDY. We will be happy to do it? You mean we are going to hear allegations and charges that Marjorie Knowles was involved in a coverup—serious allegations and charges directed against her as an individual, whom I do not know and whose name I had not heard until last evening and again this morning—allegations and charges that she was involved in some kind of a coverup, as has been stated here by Mr. Peterson? We have not invited her to come before this committee after an allegation or charge as serious as that has been made, with all of these cameras focusing on Mr. Peterson, and all of the tables full of the press sitting out here before us?

I have just been handed the notes here this morning that the Justice Department—and I just found this out 5 minutes ago—had done a review. Mr. Keeney, the Deputy Assistant Attorney for the Criminal Division of the Department of Justice, said today, "The allegations by Gerald Peterson against Marjorie Knowles have been investigated by the Department of Justice." Mr. Keeney said the information provided did not give adequate basis for further

consideration and the case was closed. A letter was sent to Ms. Knowles to that effect by the Justice Department.

It just seems to me when we are laying this case out—and I am interested in rooting out the corruption as well as the chairman is, but I am also interested in being fair to Mr. Peterson, to Marjorie Knowles, and to the programs.

If we are going to conduct an investigation that is going to be fair and just and have any credibility, it is imperative that we hear from those who are going to be accused and that we make a complete and full record of the allegations and charges.

I think that is the only way this committee is going to maintain any credibility and we will have any kind of impact in terms of the legitimate interests with which this hearing has been developed; and that is to try and find out if there is corruption within that particular Agency, the nature of it, what can be done to root it out, and what steps have to be taken, whether legislatively or through the Department of Justice, to prosecute those who have violated that trust.

I would like to find out, again, why we have not asked Marjorie Knowles to testify—when we are going to get charges and allegations as serious as this—so that she could defend herself, not 3 months from now, 3 weeks from now, or 3 days from now.

The CHAIRMAN. We may very well do that, Senator.

Senator KENNEDY. "May very well do it"?

The CHAIRMAN. Yes. We may not. But what is called into question here is her judgment on making that decision, when the Inspector General wants to go forward with an investigation.

Senator KENNEDY. You do not think she is entitled to be heard?

The CHAIRMAN. I do not doubt her right to be heard, and we will certainly—if you want her called, we will call her; we would be very happy to.

The question is not whether she covered it up but whether her judgment was right in allowing this to go on when an Inspector General wanted to investigate this matter. That is what we brought this out for. If you want her called, we will be happy to call her.

Senator KENNEDY. I would suggest, quite frankly, Mr. Chairman—and I know you are very concerned about the protection of the people and their rights. I think all of us are. But when we have allegations and charges about the coverup or halting audits and whether it has political implications, and what all of that means in terms of those individuals' basic integrity and their lifelong careers, it seems to me that we have some responsibility.

When we know from our own information that the Justice Department has reviewed it, an individual is entitled to appear and face the accusers with a basic sense of fairness and equity in this. As I said, I want to cooperate with the committee in getting to the basic root of it.

Do you have information about what the Justice Department's investigation of these kinds of charges have been?

The CHAIRMAN. I do not have that information. What we are questioning is the management decision. We are not saying Ms. Knowles tried to cover this up. We are saying this is a management decision that is typical of management decisions made at the

Department of Labor during this period of time. I think that is all he said.

You did not accuse her of covering it up, did you?

Mr. PETERSON. I did not.

The CHAIRMAN. I did not hear it that way. If you heard it that way, I think you heard it wrong. But he did accuse her of stopping an Inspector General's investigation, and I think that is pretty important to bring out.

Senator KENNEDY. Of course it is.

The CHAIRMAN. If you want her called, we will hold subsequent hearings and call her; and we will find out whether she covered it up. Maybe that is worthy of an investigation. We did not choose to think it was to this point, because that is the testimony. But if you want her called as ranking minority member, we will be happy to do that. I would be more than happy to, under oath.

Senator KENNEDY. Mr. Chairman, this story that was reported in the newspaper some time ago—December 5, 1979—almost 2 years ago—I would ask that those articles be put into the record. What they smack of is political coverup.

The CHAIRMAN. Without objection, they will be put in the record at this point.

[Material to be supplied follows:]

[From the Washington Post, Dec. 5, 1979]

EX-LABOR AIDE SAYS PRIDE AUDIT VETOED

* * * * * * *

That review, which was concluded without finding any discrepancies, was ordered after The Washington Post reported in a series of articles that top officials of P.I., Properties Inc., a real estate spinoff of Youth Pride headed by Barry's former wife, Mary Treadwell, diverted, misappropriated and stole at least $600,000 from the U.S. Government while running the Clifton Terrace apartments.

Treadwell, leader of Youth Pride since its founding, has denied any wrongdoing.

Knowles denied in an interview this week that she had instructed Peterson to drop the Labor Department's planned Pride investigation for political reason. "I know I didn't," she said. Knowles said she vetoed the Pride investigation because the Labor Department was conducting two audits in the District of Columbia and "that was enough."

Peterson and Paul Lehrman, a senior Labor Department investigator, had formally notified Knowles in a memorandum June 11 of plans to begin a comprehensive investigation of Youth Pride Inc. on June 21 with a team of three auditors and two investigators.

The Decision to investigate the organization followed earlier reviews of Youth Pride books by Labor Department auditors who in examining the period from 1967 to 1976, found records missing, ledgers kept in pencil with numerous erasures, and at least $275,000 in questionable expenditures.

An examination of Labor Department records on Youth Pride showed that:

Auditors examining a $2,561,470 contract with Youth Pride reported on Oct. 4, 1971 that they "could not locate a budget prescribing in detail amounts and purposes for which federal funds were made available." They said they found, however, "lack of control over payroll advances," "failure to reconcile bank accounts on a current basis," and "inadequate inventory control over federal property and equipment."

Two private accounting firms attempting to audit a $1,470,848 Labor Department contract with Youth Pride found the records in such disorder that the audit could not be conducted. Officials of one of the firms, Opalack and Co., wrote on Dec. 28, 1977: "The general ledger is handwritten in pencil; many of the accounts show erasures and rewriting of complete pages; numerous postings could not be traced from the cash disbursements journal to the general ledger; a chart of accounts was not available."

Labor Department auditors questioned $85,379.66 in Youth Pride expenditures out of federal funds including $7,064 for 29 employes to attend the Congress of African

Peoples Conference in Atlanta in September 1970, and $10,338.21 for unsupported or unauthorized supplies in 1965 and 1970.

This was the backdrop to the recommendation by Peterson and Lehrman that Youth Pride be audited starting June 21.

"We chose Pride because, based on past audits, we believed there was something wrong there," said a former top member of the inspector general's staff.

In notifying Knowles of their intentions to launch the investigation, they added that they would inform Barry's office and the D.C. Department of Manpower and included a letter of notification to Treadwell, the head of Pride, for Knowles to sign.

Knowles' response, according to Peterson's affidavit, was to tell him: "We're not going to do it."

The Labor Department subsequently found another program to audit instead, in Milwaukee.

One of Knowles' special assistants, Sheldon D. Repp, implied that Peterson had a personal ax to grind in charging that the Pride audit was vetoed for political reasons.

"Peterson is an ex-employe who didn't get the top audit job" on a permanent basis, he said. "You can draw your own conclusions."

Peterson, who had served almost a year as acting audit chief, was passed over for permanent appointment to the job a month after proposing the Pride investigation. He subsequently took his current position as acting audit chief in the Agriculture Department.

Several other current members of Knowles' staff at the Labor Department also say that Peterson told them the Pride investigation was being killed for political reasons immediately after he met with her.

"He had no reason at that point to be disgruntled or to lie because it wasn't for another month that he learned he was being passed over as chief auditor," one of these staff members said.

Wendy Rhea, a former program analyst on Knowles' staff, said in an interview that Knowles was "politically extremely sensitive."

"The auditors had already been in touch with Marion Barry," Rhea said. "He was already touchy because of a case about improper hiring by the City Council. Then we raised Youth Pride and we were told by Knowles that 'it looks like you're picking on Marion Barry and we're trying to work with him.'

"At that point, Barry was doing well with Congress and the [Carter] administration and Knowles didn't want to come up against him," Rhea said.

Peterson, contacted by The Post, declined to go beyond his affidavit regarding the Pride audit.

Senator KENNEDY. When we are talking about the kinds of statements that are being made here today—"Did I want to audit?" "Yes, I wanted to audit." "Were you permitted to audit?" "No, I wasn't permitted to audit?" "Why not?"—and the record will speak for itself in terms of correspondence—that smacks to me as political coverup. Others can make their own judgments. I think, very frankly, that that is the way it is going to go out on the airwaves and in the press reports.

When we have an investigation that was initiated as a result of that newspaper article by the Justice Department, that is related to that kind of incident, I think we have some responsibility to make that a part of the record at this point.

I also think that when we have that kind of allegation and charge against an individual, who has spent some period of her life—I have no idea, but some period of her life—in an enforcement and auditing career, she is entitled to be heard at the time when individuals are accusing her.

The CHAIRMAN. Senator Quayle?

Senator QUAYLE. Thank you, Mr. Chairman.

Let me try to get this in summary for myself. You were the Deputy Inspector General in the Department of Labor for how long?

Mr. PETERSON. I was the Assistant Inspector General for Audits at that time.

Senator QUAYLE. And your boss was Marjorie Knowles?

Mr. PETERSON. That is correct.

Senator QUAYLE. She was the Inspector General?

Mr. PETERSON. That is correct.

Senator QUAYLE. How long was she Inspector General?

Mr. PETERSON. I am not sure of the exact dates, but I believe she became Inspector General sometime either in February or March of 1979—early in 1979.

Senator QUAYLE. February of 1979?

Mr. PETERSON. I believe so.

Senator QUAYLE. How long was she in that position?

Mr. PETERSON. I left in September 1979, and she continued in that position until, I believe, sometime in 1980; but I am not sure of those dates.

Senator QUAYLE. When in 1979 did you recommend to her that we ought to have an audit of Youth Pride?

Mr. PETERSON. In June—June 11, 1979.

Senator QUAYLE. You recommended that we have an audit of Youth Pride. When did she say no?

Mr. PETERSON. My memory is that it was within a week of the recommendation, although she did not respond to my written memorandum in writing; she simply called me into the office.

Senator QUAYLE. Within a week she said no.

What is the procedure when you request an audit? Does it just go to the Inspector General, and that individual makes the determination, or do they converse with the Secretary of Labor? What was it before? Was there any change in the procedure of prior Inspectors General before Ms. Knowles?

Mr. PETERSON. On a normal audit I would not even have notified the Inspector General; but because we were in fact developing a new tool and it was rather sensitive in terms of the surveillance part of it, I thought she needed to know that we were going to be using it and where we were going to be using that instrument. That was the reason for my notifying her that we were about to start this audit in Youth Pride.

Senator QUAYLE. How long were you with the Department of Labor, did you say? How long were you the Assistant Inspector General?

Mr. PETERSON. I was the Director of Audit for about 10 years. You have to understand, however, that the Inspector General concept was only initiated in 1978 or 1979. I was only in the Inspector General's office from the time of its inception, but I was the Director of Audit for almost 10 years.

Senator QUAYLE. How many other requests for audit were turned down?

Mr. PETERSON. I have never had a request for audit turned down.

Senator QUAYLE. This is the only case where an audit was ever turned down?

Mr. PETERSON. That is right.

Senator QUAYLE. Why did you want to audit Youth Pride?

Mr. PETERSON. As I said, we had developed a new approach to audit. The approach was specifically designed to look for fraud. The

typical audit did not specifically look for fraud. This particular instrument was designed to look specifically for fraud. It was designed to be used in a CETA subrecipient setting.

Pride was a known problem subrecipient with a large amount of money from the Department of Labor, and Pride was here in Washington, D.C., where I could pay particular attention to that ongoing audit.

Senator QUAYLE. Was there a subsequent audit of Youth Pride by the Department of Labor?

Mr. PETERSON. Not while I was at the Department of Labor.

Senator QUAYLE. Has there been a subsequent audit?

Mr. PETERSON. I do not know.

Senator QUAYLE. You do not know?

Mr. PETERSON. No.

The CHAIRMAN. I do not think there has been, but we would like to know.

Senator QUAYLE. OK. This was not any special case; it was just a mechanism for detecting fraud and abuse; and you decided that Youth Pride, for local reasons—I mean there was not one particular fact or any knowledge you had on why you would want to focus in on Youth Pride at this time?

Mr. PETERSON. No specific knowledge. I had knowledge of Youth Pride. We had other reports where CPA firms had reported that Youth Pride was unauditable—that is to say that the basic books and records would not reconcile to the financial statements. I knew that Youth Pride was a problem sponsor of Department of Labor programs, but I did not have one specific thing that I wanted to look at. We wanted to use the guide on the total of that entity.

Senator QUAYLE. Did you share this information with Marjorie Knowles that Youth Pride was a problem?

Mr. PETERSON. Yes, I did.

Senator QUAYLE. Thank you, Mr. Chairman.

The CHAIRMAN. Let me just finish with this: You are not accusing Ms. Knowles of any impropriety here, are you?

Mr. PETERSON. I am not accusing Ms. Knowles of any impropriety, nor have I at any point in time.

The CHAIRMAN. You did question her judgment?

Mr. PETERSON. I did question her judgment—yes, sir—and I would continue to question her judgment today.

The CHAIRMAN. In other words, you felt that Youth Pride should have been investigated and you should have been allowed to go in and investigate it without question?

Mr. PETERSON. Yes, that is correct.

The CHAIRMAN. That is all I have. Thank you.

Our next witness will be Thomas F. McBride, Inspector General at the Department of Labor.

Mr. McBride, would you raise your right hand? Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MCBRIDE. I do.

The CHAIRMAN. Thank you. I will turn the time over to you.

STATEMENT OF HON. THOMAS F. McBRIDE, INSPECTOR GENERAL, DEPARTMENT OF LABOR

Mr. McBRIDE. Mr. Chairman and members, it is a pleasure to be here today.

As this committee is aware, earlier this year numerous allegations began to surface regarding contracts awarded in the months immediately preceding January 20, 1981. As soon as these allegations came to the attention of the Office of Inspector General, we reviewed all of the Office of National Programs contract files for the contracts during that period and interviewed most of the Office of National Programs employees who had responsibility for the contracts in question.

As a result of those initial reviews, we scheduled several areas for further investigation. In April 1981, certain of these matters were discussed with the U.S. Attorney's Office for the District of Columbia, and grand jury investigation is continuing.

As you know, matters before the grand jury are protected by rule 6(e) of the Federal Rules of Criminal Procedure—that is, grand jury proceedings are secret, and as a result I am not at liberty to discuss matters under grand jury consideration.

The committee staff asked whether we had any information unrelated to the grand jury inquiry as to whether any Department of Labor contractor or grantee had any business relationship with Green-Herman & Associates subsequent to Mr. Green's resignation as Assistant Secretary.

We have learned of two such instances. One of those instances involves the Mel Harris contract which was referred to earlier; another, a small contract with the National Council of Negro Women.

I have also been advised that the committee was particularly concerned with our audit coverage of two grantees—Green Thumb and Southern Vocational Community College.

First on Green Thumb—we have issued since 1973 11 audit reports covering about $200 million in grant or contract expenditures by Green Thumb. Generally these basically financial audits have disclosed only minor discrepancies, with one exception.

Green Thumb had established what was called a "Green Thumb Employees' Non-Fraudulent Errors and Omissions Self-Insurance Fund." Basically, this fund was established by Green Thumb to protect them from uncollectable losses resulting from Green Thumb employee errors and omissions.

What they did was take grant funds and put them into a special self-insurance fund, if you will, and also retained the interest earned on that fund. Our most recent audit, as of December 31, 1979, showed that the fund had a balance of about $1.1 million.

We called that to the attention of the Office of National Programs, and they wrote Green Thumb in January 1979 and said that this procedure was—I forget the exact word—"improper" or "inappropriate" and also said that all interest earned on those moneys should be refunded to the Department of Labor.

The CHAIRMAN. That was January 17, 1979?

Mr. McBRIDE. That is correct.

We checked up on it later and found that no further action had been taken to carry out the directions of that letter but that in

June 1981 another letter was sent, basically with the same instruction.

The CHAIRMAN. Has the interest been refunded?

Mr. MCBRIDE. It has not, as of this date.

The CHAIRMAN. Why would they put the funds in an interest-bearing account rather than utilizing it for the purpose of their proposed grant?

Mr. MCBRIDE. They treated it as an insurance fund. Just as they would insurance premiums, they paid them into a special imprest or separated fund.

The CHAIRMAN. What do you mean by that?

Mr. MCBRIDE. The notion would be that they would set up a separate bank account in a separate fund.

If we audited and we found, let us say, $800,000 in disallowed costs due to error—not fraud; administrative errors of various kinds—then they would use that fund to pay back the Department of Labor for the management or employee errors resulting in that audit finding.

Obviously, our problem with it was that they were using our grant funds to pay costs incurred as a result of maladministration of our grant funds.

I should note that the Employment and Training Administration recently issued a memorandum to all its regional administrators and through them to all prime sponsors and grantees advising them that costs for premium payments or these self-insurance payments would not be an eligible grant expenditure.

The CHAIRMAN. To your knowledge, as of today, have the costs been refunded to the Department?

Mr. MCBRIDE. They have not. Funding continues to Green Thumb, and we are initiating an audit this week of Green Thumb. Obviously, any interest earned on that fund and the question of the separate maintenance of that fund will be dealt with again in that audit report, and I think ultimately the Government's interest will be protected, from unexpended grant balances.

The CHAIRMAN. Let me ask you this. I am having a little bit of difficulty understanding this. First of all, why should they not be allowed to put that money at interest if they are not utilizing that money? Would that not be an appropriate way of utilizing the funds during the interim while they are gradually drawing down on those funds? Should they not put it at interest? And if they do, why can they not keep the interest?

Mr. MCBRIDE. Basically, the grant is set at a dollar figure after whatever negotiation or competitive process in the case of contracts occurs. That is the figure that is to fund the activity described in the grant or contract. Interest earned on those moneys belongs to the Government. Otherwise, by excess drawing down, let us say, on a letter of credit, a grantee could accumulate millions of dollars and use it for nongrant purposes.

The CHAIRMAN. That is what they had been doing then. In other words, the interest they had been using to pay insurance premiums.

Mr. MCBRIDE. No, they did not pay premiums; what they did was set up their own self-insurance fund, and the interest on that fund simply reverted into the fund itself and then accumulated.

The CHAIRMAN. And they have been informed that that is not right?

Mr. MCBRIDE. They have been informed to cut it out.

The CHAIRMAN. And they have been informed to refund the funds after January 17, 1979, and then again on June 1, 1981—almost 3 years later—and they still have not done it?

Mr. MCBRIDE. That is correct.

The second grantee that the committee had particular interest in was Southern Vocational College. We very recently—yesterday, I believe—issued an audit report to ETA on Southern Vocational College in which we noted their demonstrated inability to properly administer an $870,000 Labor Department grant for the period ending March 31, 1980.

This grant was basically a grant to provide classroom training and services to migrant workers in three Southern States.

We took exception—of the $870,000—to about $628,000, of which $280,000 was costs recommended for disallowance. In other words, that is a fairly firm auditor finding that those costs should simply be disallowed—that they were not appropriately charged to the grant. That is about one-third of the total grant funds.

In addition, we questioned $242,000—about 29 percent of the grant. "Questioned" may mean that some will be disallowed; it may mean that inadequate documentation has been provided to support the expenditure. It is a somewhat gray area which, after review and negotiation, will probably result in some disallowance short of that total of $242,000.

Finally, we noted that they had charged the participants in the program $105,000 in tuition and other fees for books, and so forth, and did not report this as program income. In effect, we paid for that tuition and book money, and then they charged the participants. So they obtained a profit, if you will, equivalent to $105,000.

The CHAIRMAN. And that was not part of the grant approach that they were obligated to follow?

Mr. MCBRIDE. The grant would have to have been clear one way or the other. Any income of that sort generated for services to be provided under the grant would be treated as income and offset the grant expenditures, thus reducing the Federal Government total grant expenditure.

I should note that in March 1979, because of the audit problems we found, one of our audit staff actually went to Southern Vocational with a member of the ETA staff and did an onsite assessment of the fiscal integrity of the grantee and its administrative ability under the grant.

We reported to the head of the migrant program in ETA that the financial management system was very poor, and frankly we believed that the grantee was incapable of administering the DOL grant and that ETA should suspend funding or, more accurately, consider suspending funding.

ETA was at the same time made aware of similar findings by the Alabama State Department of Education, by the HEW Audit Office—the I.G.'s Audit Office—and by certain allegations that had been conveyed to ETA by the Federal Bureau of Investigation.

ETA, rather than cutting off the grant, simply revoked their letter of credit but put them on a cost-reimbursable basis, which

really made little difference because they were still being paid in response to their own vouchers as to costs incurred under the grant.

The CHAIRMAN. When did ETA do that?

Mr. MCBRIDE. That was, I believe, in mid-1979. I do not have the exact date.

We are, as I mentioned, undertaking an additional audit right now of Southern Vocational College, and we will be looking at the expenditures under the continuing grant. There is also a fairly serious indirect cost question which we will directly be addressing in that audit.

Those are the areas in which the committee expressed particular interest. I am quite willing to answer any questions you or the members may have, Mr. Chairman.

The CHAIRMAN. Mr. McBride, we appreciate your position with respect to the grand jury proceeding and those areas covered under the Rules of Criminal Procedure.

Upon completion of the grand jury consideration or whenever appropriate, would you be kind enough to forward to the committee a complete report on these matters?

Mr. MCBRIDE. We certainly would—on the disposition of whatever criminal action ensues.

The CHAIRMAN. Thank you.

Can you identify those two instances of grant or contract relationships that your office has learned of independent of the grand jury investigation?

Mr. MCBRIDE. The two that we are aware of are the Mel Harris Associates—as I understand it, Mel Harris Associates, which is a consulting firm specializing in the employment and training area, was retained by the Mobile, Ala., prime sponsor to help the phaseout of the public service employment program in that area.

They retained, in turn, Green-Herman & Associates at a fee of approximately $75,000 to assist them in that public service employment phaseout contract.

The CHAIRMAN. Do you attribute the $75,000 as an indirect payment as a result of ETA funds being paid to Mel Harris?

Mr. MCBRIDE. Yes. Those would be directly supported by the Federal grant to the CETA prime sponsor.

The CHAIRMAN. Then I take it you would disagree with the attorney's letter which we received from Green-Herman stating that there were no funds directly or indirectly given to Green-Herman from any grantee?

Mr. MCBRIDE. It appears to me to be a case of indirect Federal funding, passing through to Green-Herman & Associates.

The CHAIRMAN. In your experience do you know of any other way it could be characterized, having done the audit work that you have done?

Mr. MCBRIDE. We have not audited the particular Mobile or Mel Harris contract; but based on what I understand as I have just described, I know no other way to characterize it than as an indirect payment of Federal grant funds.

The CHAIRMAN. Are you planning on auditing those two contracts?

Mr. MCBRIDE. Yes, we will.

The CHAIRMAN. Then at that point you will report to us and let us know—confirm or unconfirm—whatever your findings are?

Mr. MCBRIDE. Certainly, Mr. Chairman.

The CHAIRMAN. But your present belief is that literally that was an indirect payment as a result of contract award?

Mr. MCBRIDE. Yes.

The CHAIRMAN. In fairness, is it true that these two matters—Mel Harris Associates, and I believe you mentioned the National Council of Negro Women?

Mr. MCBRIDE. Yes. That was a small training contract.

The CHAIRMAN. In all fairness, is it not true that these are not matters presently being considered by the grand jury?

Mr. MCBRIDE. Oh, no; they are not. They are totally separate, and I would certainly not be testifying concerning them were they under the coverage of the U.S. Attorney's Office.

The CHAIRMAN. With regard to the Green Thumb self-insurance fund to cover future disallowed costs, you have stated that the Office of National Programs informed the grantee in January 1979 that this was improper and that this June—1981—ETA reiterated this point. So I assume, as you have said today, even up to today the practice is still continuing and they have ignored the letters.

Mr. MCBRIDE. We verified it as of yesterday. It is still continuing.

The CHAIRMAN. What does the Department expect to do about this?

Mr. MCBRIDE. I would expect that the new leadership at ETA—and I have had the opportunity to work quite closely with Assistant Secretary Angrisani—will take affirmative steps, one, to collect the interest on that account; and, two, to make sure that such an account is not maintained. As I mentioned, ETA has issued policy instructions to all its field people and through them to the prime sponsors, stating that policy.

Since they are receiving continuing funding at a fairly substantial level, I do not expect that the Government will have lost any money when we finally do the close-out audit, and any interest earned on that account will be offset against grant funds.

The CHAIRMAN. I see.

With regard to Southern Vocational College—and we will be exploring this in more detail later—you stated that this audit, although released as a final report yesterday, covers the period of September 1978 through March 1980. Is that right?

Mr. MCBRIDE. That is correct.

The CHAIRMAN. A preliminary report we will be discussing later, dated March 29, 1979, from Gerald Peterson would be concerned with the same grant, the same funding, and the same allegations now confirmed in your final report?

Mr. MCBRIDE. It would be dealing with the same grantee, but it would be dealing with a different grant period—an earlier grant period.

The problem is that the financial mismanagement practices obviously began under a prior grant and continued during the grants which we recently audited.

The CHAIRMAN. Would it be fair to say that the indirect cost question in your final report lacks document and support to this day—all $116,000?

Mr. McBRIDE. The indirect cost issue, which is really the smallest dollar issue—we had much more serious dollar findings—is a somewhat technical issue. Every grantee has an indirect cost percentage—40 or 50 percent, I think, in the case of Southern Vocational. That is initialiy audited in this case by HEW, which is another Federal funding agency.

We had serious questions as to whether the basis on which that indirect cost rate was set were accurate. We are going back in to that grantee to cover the indirect cost element as well as the other financial management issues we dealt with before.

The CHAIRMAN. You have stated that as a result of the March 1979 visit to your office—this was Gerald Peterson's memo to Lindsay Campbell, head of the Migrant Office in ONP—you recommended suspension of funding, but ETA chose only to put the grantee under a cost reimbursable system requiring monthly reports and invoices—both drafted, by the way, entirely by the grantee itself.

Your office never sent any preliminary report prior to April 1980 to the director of ONP which exonerated the grantee or stated that in essence the allegations were not true?

Mr. McBRIDE. We did not.

The CHAIRMAN. We would appreciate your reporting to the committee on the final update of the $697,000 spent from March 1980 to the present.

Mr. McBRIDE. We will certainly do that.

The CHAIRMAN. Let me just say this: As I understand it, with regard to this grantee, you questioned some 62 percent of the grant; 29 percent you characterized as "questioned," and 33 percent you recommended for disallowance. And there is some question about the $103,000 for tuition and book fees.

Mr. McBRIDE. It is up to 70 percent almost.

The CHAIRMAN. That you seriously question?

Mr. McBRIDE. Yes.

The CHAIRMAN. We appreciate your personal appearance here today. We may have some further written requests of you. We understand the grand jury problem and will of course try to understand it in the future.

Senator Kennedy?

Senator KENNEDY. I have no question.

The CHAIRMAN. Senator Quayle?

Senator QUAYLE. I would like to back up to the previous testimony. Were there any subsequent audits of Youth Pride after the one turned down?

Mr. McBRIDE. There was what I would characterize as a somewhat routine subsequent audit. That is, the prime sponsor—in this case the D.C. prime sponsor—under contract had audits conducted of Youth Pride, which was a subgrantee.

More importantly, however, as you are probably aware, a fairly large-scale investigation under the aegis of the U.S. Attorney's Office for the District of Columbia was conducted of Youth Pride. My understanding is that the records, such as they were—unauditable, as characterized by Mr. Peterson—have been very thoroughly examined in the course of that investigation; and that is still ongoing.

Basically for that reason, we have not conducted any subsequent audit. That is, the U.S. Attorney really has taken over the matter and is thoroughly auditing and investigating all the Youth Pride operations.

Senator QUAYLE. So the investigation is still ongoing by the Department of Justice? Is that your understanding?

Mr. MCBRIDE. That is my understanding.

Senator QUAYLE. You said, "The Employment and Training Administration recently issued a memorandum to Prime Sponsors advising them that costs for premium payments for Errors and Omissions Insurance would not be an eligible grant expenditure."

Mr. MCBRIDE. That is correct.

Senator QUAYLE. What would be an eligible grant expenditure along the lines of liability for employees, boards of directors, and others? Are they allowed to purchase any insurance from these moneys or not?

Mr. MCBRIDE. Not using grant moneys.

Senator QUAYLE. No insurance at all?

Mr. MCBRIDE. No. The basic problem we have with it, Senator, is that to the extent one is insured against mismanagement, you may be creating incentives to mismanagement. So we have adamantly opposed the expenditure of grant funds for that purpose.

The question as to whether from their own funds they wish to procure insurance, as you would a fidelity bond, poses a different set of questions; and I do not feel quite as strongly about that.

Senator QUAYLE. But from Federal funds there can be no expenditure for any kind of insurance for personal liability?

Mr. MCBRIDE. That is correct. Federal grants funds can be used to purchase fidelity bonds, automobile liability for bodily injury and property damage, or other insurance covering liability to third parties but not for purchase of insurance to cover mismanagement or personal liabilities.

Senator QUAYLE. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. In fairness to Green-Herman, I have a letter dated Apr. 3, 1981, signed by Green-Herman. In fact, it is signed by Alexis Herman and Mel Harris. It is to Mel Harris, and it says this:

> This document serves as a formal letter of agreement between Mel Harris & Associates, Inc., and Green-Herman & Associates, Inc. Green-Herman & Associates will enter into a subcontracting arrangement with Mel Harris & Associates to assist with the transitioning of 700 EOPP Public Service Employment (PSE) participants and the administrative and close-out technical assistance for the Mobile County Consortium * * *.

Are you aware of this letter?

Mr. MCBRIDE. Yes, I am. We have that in our investigative files.

The CHAIRMAN. It does happen to do with the Mobile County Consortium, and I take it that is the reason that you have tied this in—the $75,000—as an indirect payment out of grantee funds?

Mr. MCBRIDE. Yes.

The CHAIRMAN [reading].

> Specifically, Green-Herman & Associates, Inc., agrees to provide the following services in its subcontracting relationship:
> In the transition phase Green-Herman & Associates, Inc. will:

(1) Assist EOPP in implementing necessary procedures to accommodate smooth transitioning of participants;

(2) Coordinate an advertising campaign directed to the general public and potential employers;

(3) Assist EOPP in developing a feedback mechanism of participant information from the various sites and support staff;

(4) Assist in convening a meeting of the PIC, ES, other employment and training programs such as WIN, Job Corps, Title III projects, business and labor groups to write the local re-employment plan;

(5) Assist with documenting the termination of PSE participants.

In the administrative and close-out technical assistance phase Green-Herman & Associates, Inc., will:

(1) Assist in the close-out of the administrative structure and staff;

(2) Conduct an evaluation of the Mobile project;

(3) Submit a written evaluation report.

Green-Herman & Associates, Inc., understands that the time framework for the prime and subcontracts.

Are they referring to this contract that you were referring to?

Mr. MCBRIDE. Yes, that would be the subcontract.

The CHAIRMAN. So that is how you tie it in, then?

Mr. MCBRIDE. Yes.

The CHAIRMAN. OK. Is it possible that Mel Harris & Associates actually had other moneys that they gave to Green-Herman, other than the $75,000 from the grantee?

Mr. MCBRIDE. Until the audit is completed I cannot be absolutely certain. It appears to me from the documentation that you have, which I have also seen, that this was to be paid for out of the Federal grant funds received by the prime sponsor.

The CHAIRMAN. That is the way it does look, but you will check on that and let us know?

Mr. MCBRIDE. We certainly will.

The CHAIRMAN [reading].

Green-Herman & Associates, Inc., will accomplish all of the listed tasks during this time period. Green-Herman & Associates, Inc., will require 2,380 hours of staff and consultant time at a total fixed personnel cost of $63,070. The evaluation and report will be a fixed cost of $11,930. Thus, the total fixed cost of Green-Herman & Associates, Inc., subcontract with Mel Harris & Associates, Inc., is $75,000.

Green-Herman & Associates, Inc., will require one-third ($25,000) of the $75,000 subcontract in a single advance payment, due upon signing of this agreement. The remainder of the fixed cost contract ($50,000) will be invoiced in accordance with the billing process of the prime contractor over the life of the contract.

By "prime contractor," whom did they mean there?

Mr. MCBRIDE. That would be the Mobile consortium.

The CHAIRMAN. Which they name earlier in this letter?

Mr. MCBRIDE. Yes.

The CHAIRMAN. OK.

Green-Herman & Associates, Inc., is pleased to enter into this subcontracting agreement with Mel Harris & Associates, Inc., effective this date.

So that is one of the reasons that you have come to the conclusion that they have had at least indirect funds knowingly from the contractee?

Mr. MCBRIDE. That is correct.

The CHAIRMAN. Thank you, Mr. McBride. We appreciate your appearance here today. We would appreciate your following up and sending us any followup materials you possibly can.

Mr. MCBRIDE. We certainly shall. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. McBride and additional material supplied follow:]

STATEMENT OF THOMAS F. McBRIDE
INSPECTOR GENERAL FOR THE
DEPARTMENT OF LABOR
BEFORE THE

COMMITTEE ON LABOR AND HUMAN RESOURCES
UNITED STATES SENATE

October 20, 1981

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to appear before you today to testify concerning certain contracts awarded by the Employment and Training Administration in the final months of the prior Administration.

As this Committee is aware, earlier this year numerous allegations began to surface regarding these contracts shortly after January 20, 1981. As soon as the allegations came to the attention of the Office of Inspector General an investigation was begun. Numerous contract files administered by the Office of National Programs (ONP) and all of the 8A contract files were reviewed by the Office of Inspector General agents. Most of the ONP employees with administrative responsibility for the contracts in question have been interviewed. As a result of these interviews and file examinations several areas were identified for further investigation.

In April 1981 we discussed certain of these matters with the Office of the United States Attorney for the District of Columbia. A grand jury investigation is presently underway.

As you know, matters before the grand jury are required by the Federal Rules of Criminal Procedure to be kept secret and I am therefore precluded from discussing those matters. Committee staff asked whether we had any evidence, which we could disclose, as to whether any DOL contractors or grantees had any business relationship with Green-Herman Associates subsequent to Mr. Green's resignation as Assistant Secretary of Labor. We have learned, independent of the grand jury investigation, of two such instances.

I cannot predict how much longer this investigation will take since the length of the investigation will be determined by results of the work presently underway.

I have also been advised that the Committee was particularly concerned with our audit efforts pertaining to two grantees, Green Thumb and Southern Vocational Community College.

First, Green Thumb. The Office of Inspector General has issued 11 audit reports on Green Thumb covering over $200 million in expenditures since 1973. Generally only minor exceptions were noted. For example, in our last report, issued in September 1980, we covered the expenditure of $62 million and only questioned $34,000. ETA subsequently disallowed $16,000.

Each of the last four audit reports, however, noted that the Grantee, with DOL approval, established a "Green Thumb Employees Non-Fraudulent Errors and Omission Self Insurance Fund." This fund was established by Green Thumb to protect the Grantee from uncollectible losses resulting from non-fraudulent errors and omissions of Green Thumb employees. The fund's assets are generated entirely from charges to DOL grants/contracts and from interest earned on the fund balance.

Our audit report showed that as of December 31, 1979, the fund had a balance of $1.1 million. The audit report states that the Director of the Office of National Programs for Older Workers, in a letter dated January 17, 1979, advised Green Thumb that this procedure was improper. The letter further stated that all interest earned on DOL monies should be refunded to the Department. These directions were reiterated in a June 1, 1981 letter from ETA to the grantee.

Recently, several CETA Prime Sponsors requested the Department to allow CETA funds to be used to purchase "errors and omissions insurance." This type of insurance is similar to the Green Thumb Errors and Omission Fund in that it provides indemnification to cover the grantees' liability to

the Department for audit disallowances. We took strong exception to the use of pooled grant funds in the form of premiums to pay back disallowed costs to the Federal Government. Errors and Omissions Insurance and similar reserve funds do not represent sound government financial management practices as it would permit grantees to do indirectly what cannot be done directly under the Act and regulations.

The Employment and Training Administration recently issued a memorandum to Prime Sponsors advising them that costs for premium payments for Errors and Omissions Insurance would not be an eligible grant expenditure.

We recently awarded a contract to a CPA firm to audit $172 million in DOL grant funds provided to Green Thumb since the period covered by our prior audits. This financial and compliance audit is just beginning. The audit will take exception to any current or past charges for reserves for audit disallowances. The report will also require that all interest earned on the fund be treated as program income and offset against grant costs.

Lastly, Southern Vocational College. Yesterday, we issued a very critical audit report to ETA concerning Southern Vocational Community College's inability to properly administer an $870,000 DOL grant for the period September 1, 1978 through March 31, 1980. The primary purpose of this CETA Title III

Section 303 grant was to provide classroom training and services to migrant and seasonally employed farmworkers in the States of Alabama, Georgia and Mississippi who suffered chronic seasonal unemployment and underemployment in the agriculture industry. The objective was to train the participants in health occupations and place them in gainful employment in the health-care industry.

The auditors took exception to $628,000, or about 75% of the grant expenditures. The financial management weaknesses noted were of such severity that it is clear that this grantee did not have the capability to administer Federal funds. The audit disclosed $280,000 in costs recommended for disallowance (33% of total reported costs) and $242,000 of questioned costs (29% of total reported costs). In addition, the auditors noted that the grantee improperly charged $103,000 in tuition and book fees to participants yet failed to report this as program income and offset this against the costs charged to the grant.

The disallowed costs (clear violation of the grant requirements) resulted from such findings as the grantee having ineligible participants, making improper allowance payments, and charging instructors salaries to the grant when CETA participants were not in the instructors' classes.

The major cause of the questioned costs included costs charged to the grant without sufficient documentation and the

questioning of all $116,000 in indirect costs. All indirect costs were questioned as a result of indications of the unsupportability of the established indirect cost rate of 46% of direct salaries and wages. This rate was previously negotiated by HEW, the Grantee's cognizant Federal agency, and used as the basis for the indirect costs charged under this contract.

Mr. Chairman, in March of 1979, a representative of the Office of Inspector General, along with an ETA representative, visited Southern Vocational Community College to assess the fiscal integrity of this grantee and its ability to administer the DOL grant. We reported to the head of the Migrant program that the financial management system at the College was extremely poor and we believed that the College was incapable of administering the DOL grant. Furthermore, we recommended that ETA consider suspending funding pending the results of an audit.

The file shows that ETA was aware that similar findings were noted by the staff of the Alabama State Department of Education, the FBI, and the HEW Regional Audit Office. The file further shows that HEW froze all funds but that ETA chose, instead, only to revoke the College's letter-of-credit and put the College on a cost reimbursable basis.

Finally, the CPA that performed the audit just discussed will shortly start an audit specifically directed to the

indirect cost question as well as an audit of the costs expended by Southern Vocational College under a $697,000 Youth Employment and Training Grant during the period April 1980 to September 1981.

Mr. Chairman, I would be pleased to respond to any questions you or the Committee members have.

United States Senate
COMMITTEE ON LABOR AND HUMAN RESOURCES
WASHINGTON, D.C. 20510

June 23, 1981

Mr. Ernest Green
Green-Herman and Associates, Inc.
1120 Connecticut Avenue, N.W.
10th Floor
Washington, D.C. 20036

Dear Mr. Green:

The Committee on Labor and Human Resources is currently conducting an oversight inquiry into Labor Department contracts and grants let under the Comprehensive Employment Training Act since June 30, 1980. To assist us in this inquiry, I would appreciate your providing the committee a list of any and all contracts, subcontracts, grants or subgrants that your firm has received since its incorporation in January, 1981. Where subcontracts or subgrants are involved, please specify the prime contractor or prime grantee; also specify the date that contracts or subcontracts, grants or subgrants were received and list the dollar amount of each.

In addition, please provide the committee with an accounting of all funds received from prime or subcontractors under any and all other federal grant or contract programs, i.e., Social Security, Small Business Administration, Department of Education, et al. If your firm has set up any service projects utilizing Labor Department funds, directly or indirectly, please specify.

I hope to receive your response by the close of business Thursday, July 2. Any inquiry regarding this request should be directed to Mr. Dan Gill of the committee staff at 224-9285.

Your cooperation is greatly appreciated.

Sincerely,

Orrin G. Hatch

Orrin G. Hatch
Chairman

OGH/dgc

FINLEY, KUMBLE, WAGNER, HEINE, UNDERBERG & CASEY
1920 CONNECTICUT AVENUE, N.W.
WASHINGTON, D.C. 20036
(202) 857-4000
CABLE DANNEY
TELEX 89-2418
TELECOPIER (202) 857-4410
WRITER'S DIRECT DIAL
(202) 857-4466

July 2, 1981

The Honorable Orrin G. Hatch
Chairman
Senate Committee on Labor and
Human Resources
302 Senate Courts Building
United States Senate
Washington, D.C. 20510

Dear Senator Hatch:

As Counsel for Green-Herman and Associates, Inc. ("Green-Herman") we are authorized to respond to your letter request to Green-Herman asking that the Committee on Labor and Human Resources ("Committee") be provided with (1) "a list of any and all contracts, subcontracts, grants or subgrants that [the] firm has received since its incorporation in January, 1981" from the U.S. Department of Labor under the Comprehensive Employment Training Act; (2) "An accounting of all funds received from prime or subcontractors under any and all other federal grant or contract programs;" and (3) an enumeration of "any service projects utilizing Labor Department funds, directly or indirectly."

Green-Herman is most willing to be of whatever assistance it can to the Committee as it conducts an oversight inquiry into the Labor Department's letting of con-

tracts under the Comprehensive Employment Training Act. In keeping with this willingness, Green-Herman has conducted a thorough review of all its contractual undertakings since January, 1981 and can state unequivocally that: (1) it has not received any contracts, subcontracts, grants or subgrants from the U.S. Department of Labor under the Comprehensive Employment Training Act; (2) it has not received any funds from prime or subcontractors under any other federal grant or contract program; and (3) it has not set up any service projects utilizing Labor Department funds, directly or indirectly.

We trust that the foregoing is responsive to your request. Green-Herman will gladly provide any additional appropriate information that the Committee might require. If you or your staff have any further questions regarding any aspect of this matter please contact me.

Sincerely,

JAMES M. CHRISTIAN
For the Firm

JMC/alg

GREEN & HERMAN, P.C.
[illegible] S.W.
[illegible]
[illegible]

April 8, 1981

Mel Harris
Mel Harris & Associates, Inc.
4[illegible] Nevada Avenue North
Crystal, Minnesota 55427

Dear Mel:

This document serves as a formal letter of agreement between Mel Harris & Associates, Inc., and Green-Herman & Associates, Inc. Green-Herman & Associates will enter into a subcontracting arrangement with Mel Harris & Associates to assist with the transitioning of 700 FOPP Public Service Employment (PSE) participants and the administrative and closeout technical assistance for the Mobile County Consortium.

Specifically, Green-Herman & Associates, Inc., agrees to provide the following services in its subcontracting relationship:

In the transition phase Green-Herman & Associates, Inc., will:

(1) Assist FOPP in implementing necessary procedures to accommodate smooth transitioning of participants;

(2) Coordinate an advertising campaign directed to the general public and potential employers;

(3) Assist FOPP in developing a feedback mechanism of participant information from the various sites and support staff;

(4) Assist in convening a meeting of the PIC, ES, other employment and training programs such as WIN, Job Corps, title III projects, business and labor groups to write the local employment plan;

(5) Assist with documenting the termination of PSE participants.

In the administrative and close out technical assistance phase Green-Herman & Associates, Inc., will:

(1) Assist in the closeout of the administrative structure and staff;

(2) Conduct an evaluation of the Mobile project;

(3) Submit a written evaluation report.

Green-Herman & Associates, Inc., understands that the time framework for the prime and subcontracts is April 2, 1981-September 30, 1981. Green-Herman & Associates, Inc., will accomplish all of the listed tasks during this time period. Green-Herman & Associates, Inc., will require 2,380 hours of staff and consultant time at a total fixed personnel cost of $63,070. The evaluation and report will be a fixed cost of $11,930. Thus, the total fixed cost of Green-Herman & Associates, Inc., subcontract with Mel Harris & Associates, Inc., is $75,000.

Green-Herman & Associates, Inc., will require one-third ($25,000) of the $75,000 subcontract in a single advance payment, due upon signing of this agreement. The remainder of the fixed cost contract ($50,000) will be invoiced in accordance with the billing process of the prime contractor over the life of the contract.

Green-Herman & Associates, Inc., is pleased to enter into this subcontracting agreement with Mel Harris & Associates, Inc., effective this date.

ALEXIS HERMAN
Green-Herman & Associates, Inc.
April 6, 1981

MEL HARRIS
Mel Harris & Associates, Inc.
April 6, 1981

Office of Recorder of Deeds

CORPORATION DIVISION

WASHINGTON

This is to certify that the pages attached hereto constitute a full, true, and complete copy of CERTIFICATE AND APPLICATION OF CERTIFICATE OF AUTHORITY OF GREEN-HEDDAN & ASSOCIATES, INC., AS RECEIVED AND FILED FEBRUARY 17, 1961, TOGETHER WITH EXHIBITS ATTACHED THERETO,

as the same appears of record in this office.

In Testimony Whereof,

I have hereunto set my hand and caused the seal of this office to be affixed, this

the 10th day of

JUNE A. D. 19 61.

MARGUERITE C. STOKES

Recorder Of Deeds, D.C.

By Phyllis A. Pratt

Assistant Superintendent of Corporations

Form N-1 1-6000

OFFICE OF RECORDER OF DEEDS
Corporation Division
Sixth and D Streets, N. W.
Washington, D. C. 20001

CERTIFICATE

THIS IS TO CERTIFY that all applicable provisions of the District of Columbia Business Corporation Act have been complied with and ACCORDINGLY this Certificate of Authority is hereby issued to GREEN-HERMAN & ASSOCIATES, INC.

as of February 17, 1981

MARGURITE C. STOKES
Acting Recorder Of Deeds, D.C.

By John M. Duffy
Assistant Superintendent of Corporations

Government of the District of Columbia
Form BDC 81
Rev. July 1980

OFFICE OF RECORDER OF DEEDS, D.C.
Corporation Division
Sixth and D Streets, N.W.
Washington, D.C. 20001

CERTIFICATE IN DUPLICATE

APPLICATION FOR CERTIFICATE OF AUTHORITY

Corporate Name: Green-Herman & Associates, Inc

To the Recorder of Deeds, D.C.

Pursuant to the provisions of the Code of Laws for the District of Columbia and the Business Corporation Act, the undersigned corporation hereby applies for a Certificate of Authority to transact business in the District of Columbia, and for that purpose submits the following statement:

1. Name of Corporation
Green-Herman & Associates, Inc.

2. Address, including street and number, of its principal office in the state or country where organized
229 South State Street
Dover, Delaware 19901

3. Name desired to use in the District
Green-Herman & Associates, Inc.

(Add "corporation", "company", "incorporated", "limited" or an abbreviation thereof, if words does not appear in corporate name. Otherwise, answer same as 3.)

4. Address, including street and number of the registered office in the District
1120 Connecticut Avenue, N.W.
10th Floor
Washington, D.C. 20036
Name of its registered agent at such office
Representative Agency, Inc.

5a. Incorporated under the laws of the State of
Delaware
b. Date of incorporation
January 20, 1981
c. Term of existence
Perpetual

6. A brief statement of the business it proposes to transact in the District
Consulting and marketing analysis service.

c. Date commenced or will commence transacting business in the District
January 30, 1981

8. Names and respective addresses, including street and number, of its directors and officers

NAME	OFFICE	ADDRESS
Ernest Green	Director	21 'S' Street, NW, Washington, DC 20001
Alexis Herman	Director	700 7th Street, SW #626 Washington, D.C. 20024
	Director	
Ernest Green	President	See above
Alexis Herman	Vice Pres.	See above
Alexis Herman	Secretary	See above
Ernest Green	Treasurer	See above

Form MD-Cd
Rev. April 1979

(1)

(Over)

FILED FEB 17 1981

BY

Dated 2/10/81

Corporate Seal

Green-Herman & Associates, Inc.

Ernest A. Green

Attest:

RECEIVED
FEB 17 3 39 PM '81
RECORDER OF DEEDS
D.C.

Filed

By

Form RDC-4

CERTIFICATE OF INCORPORATION

THIS IS TO CERTIFY THAT:

FIRST: The name of the corporation (hereinafter referred to as the "Corporation") is Green-Herman & Associates, Inc.

SECOND: Its registered office in the State of Delaware is to be located at 229 South State Street, City of Dover, County of Kent; and the name of the registered agent of the Corporation in the State of Delaware at such address is The Prentice-Hall Corporation System, Inc.

THIRD: The period of its duration is perpetual.

FOURTH: The nature of the business, and the objects and purposes proposed to be transacted, promoted and carried on, are to do any or all of the things herein mentioned, as fully and to the same extent as natural persons might or could do, and in any part of the world; viz:

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware, including but not limited to, the following:

(a) To own and operate a consulting and marketing analysis service which will design for those in the field of employment and training a productivity package which will provide broad-based marketing strategies, utilizing predictive tools such as economic forecasting and econometric models.

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BY

(b) To act as consultant and adviser with respect to the most beneficial configuration of public/private sector alliances to maximize the utilization of the services provided by those in the field of employment and training.

(c) To provide diagnostic services and implementation assistance with respect to labor resource maximization by designing and implementing work force training and retraining programs.

(d) To act as consultant and adviser with respect to labor relations, on-site and off-site relocation assistance, and operating methodology to improve the quality and efficiency of employee work life.

(e) To entire into partnership agreements in furtherance of the purposes of the Corporation and for the production of income and to promote its business, and to be a general partner in such partnerships;

(f) To purchase, acquire, hold, improve, sell, convey, exchange, assign, release, mortgage, encumber, lease, hire and deal in real, fixed and personal property, of every nature and description, wheresoever situated, and any and all rights therein, including, but without limitation, improved and unimproved land, stocks, bonds, commercial paper, mortgages and mortgage notes, deeds of trust and deed of trust notes, and other securities;

(g) To employ such persons as it deems necessary or proper to carry on the business of the Corporation;

(h) To engage in and carry on any other business which may conveniently be conducted in conjunction with any of the business of the Corporation;

(i) To acquire all or any part of the good will, rights, property and business of any person, firm, association or corporation heretofore or hereafter engaged in any business whether or not similar to any business which the Corporation has the power to conduct, and to hold, utilize, enjoy and in any manner dispose of the whole or any part of the rights, property and business so acquired, and to assume in connection therewith any liabilities of any such person, firm, association or corporation;

(j) To apply for, obtain, purchase or otherwise acquire, any patents, copyrights, licenses, trademarks, trade names, rights, processes, formulas, and the like, which may seem capable of being used for any of the purposes of the Corporation; and to use, exercise, develop, grant licenses in respect of, sell and otherwise turn to account, the same;

(k) To acquire by purchase, subscription or in any other manner, take, receive, hold, use, employ, sell, assign, transfer, exchange, pledge, mortgage, lease, dispose of and otherwise deal in and with, any shares of stock, shares, bonds, debentures, notes, mortgages or other obligations, and any certificates, receipts, warrants or other instruments evidencing rights or options to receive, purchase or subscribe for the same, or representing any other rights or, interest therein or in any property or assets, issued or created by any persons, firms, associations, corporations,

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syndicates, or by any governments or subdivisions thereof; and to possess and exercise in respect thereof any and all rights, powers and privileges of individual holders;

(l) To aid in any manner any person, firm, association, corporation, or syndicate, of which any shares, bonds, debentures notes, mortgages or other obligations, or any certificates, receipts, warrants, or other instruments evidencing rights or options to receive, purchase or subscribe for the same, or representing any other rights or interests therein, are held by or for this Corporation, or in the welfare of which this Corporation shall have any interest, and to do any acts or things designed to protect, preserve, improve and enhance the value of any such property or interest, or any other property of this Corporation;

(m) To guarantee the payment of dividends upon any shares of stock or shares in, or the performance of any contract by, any other corporation or association in which this Corporation has an interest, and to endorse or otherwise guarantee the payment of the principal and interest, or either, of any bonds, debentures, notes or other evidences of indebtedness created or issued by any such other corporation or association;

(n) To carry out all or any part of the foregoing objects as principal, factor, agent, contractor, general partner, limited partner or otherwise, either along or through or in conjunction with any person, firm, association or corporation, and in carrying on its business and for the purposes of attaining or furthering any of its objects and purposes, to make and perform any

contracts and to do any acts and things, and to exercise any powers suitable, convenient or proper for the accomplishment of any of the objects and purposes herein enumerated or incidental to the powers herein specified, or which at any time may appear conducive to or expedient for the accomplishment of any of such objects and purposes;

(o) To carry out all or any part of the aforesaid objects and purposes, and to conduct its business in all or any of its branches, in any or all states, territories, districts and possessions of the United States of American and in foreign countries; and to maintain offices and agencies in any or all states, territories, districts and possessions of the United States of America and in foreign countries;

(p) To conduct any other business which may lawfully be conducted under the General Corporation Laws of the State of Delaware.

The foregoing enumeration of the purposes, objects and business of the Corporation is made in furtherance, and not in limitation, of the powers conferred upon the Corporation by law, and is not intended, by the mention of any particular purpose, object or business, in any manner to limit or restrict the generality of any other purpose, object or business mentioned, or to limit or restrict any of the powers of the Corporation. The Corporation is formed upon the articles, conditions, and provisions herein expressed and subject in all particulars to the limitations relative to corporations which are contained in the General Laws of the State of Delaware.

FIFTH: The amount of the total authorized capital stock of this Corporation is two thousand shares of Common Stock without par value. Such Common Stock being all of one class and bearing one vote per share which vote shall be noncumulative.

In addition, such Common Stock shall have such voting rights, limitations, preferences, qualifications, as shall be stated and expressed in the resolution of the Board of Directors providing for the issuance of the Common Stock. The Board of Directors is hereby expressly vested with the authority to adopt such resolutions.

SIXTH: The names and mailing addresses of each incorporator is as follows:

Name	Mailing Address
James M. Christian	1120 Connecticut Avenue, N.W. Washington, D.C. 20036
Cory M. Amron	1120 Connecticut Avenue, N.W. Washington, D.C. 20036

SEVENTH: The powers of the incorporator(s) shall terminate upon the filing of this Certificate of Incorporation, and the names and mailing addresses of persons to serve as directors until the first annual meeting of stockholders or until their successors are elected and qualify are:

Name	Mailing Address
Ernest Green	21 S Street, N.W. Washington, D.C. 20001
Alexis Herman	700 7th Street, S.W. Apartment #626 Washington, D.C. 20024

EIGHTH: It is the intention that the objects, purposes and powers specified in the Fourth paragraph hereof shall, except where otherwise specified in said paragraph, be nowise limited or restricted by reference to or inference from the terms of any other clause or paragraph in this certificate of incorporation, but that the objects, purposes and powers specified in the Fourth paragraph and in each of the clauses or paragraphs of this charter shall be regarded as independent objects, purposes and powers.

We, the undersigned, for the purpose of forming a corporation under the laws of the State of Delaware, do make, file and record this Certificate, and do certify that the facts herein stated are true; and we have accordingly hereunto set our respective hands and seals.

Dated at January 19, 1981

Lory M. Amron [SEAL]

James M. Chastain [SEAL]

DISTRICT OF COLUMBIA, ss:

Be it remembered, That on this 17th day of Jan 1991, James M. Christian, and Cory M. Amron personally appeared before me Sheila M. Fallon a notary public, parties to the foregoing Certificate of Incorporation, known to me personally to be such, and I having first made known to them and each of them the contents of said Certificate, they did each severally acknowledge that they signed, sealed and delivered the same as their voluntary act and deed, and each deposed that the facts therein stated were truly set forth.

Given under my hand and seal of office the day and year aforesaid.

Sheila M. Fallon
Notary Public

My Commission Expires June 30, 1995

State of DELAWARE

Office of SECRETARY OF STATE

I, Glenn C. Kenton Secretary of State of the State of Delaware, do hereby certify that the above and foregoing is a true and correct copy of Certificate of Incorporation of the "Green-Harman & Associates, Inc.", as received and filed in this office the twentieth day of January, A.D. 1981, at 9 o'clock A.M.

In Testimony Whereof, I have hereunto set my hand and official seal at Dover this twentieth day of January in the year of our Lord one thousand nine hundred and eighty-one.

Glenn C. Kenton, Secretary of State

O. Evans Denney, Assistant Secretary of State

The CHAIRMAN. We will call the next four witnesses together in a panel: Gregory J. Ahart, the Director of the Human Resources Division of the General Accounting Office—these are all General Accounting Office witnesses—Charles I. Patton, supervisor; Chris Crissman; and Jim Ratzenberger.

We would be happy to have all of you come up.

As I understand it, Mr. Ahart is sick; so, Mr. Densmore, you are going to replace him?

Mr. DENSMORE. Yes, sir.

The CHAIRMAN. OK. Would all four of you raise your right hands? Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. DENSMORE. I do.

Mr. CRISSMAN. I do.

Mr. PATTON. I do.

Mr. RATZENBERGER. I do.

The CHAIRMAN. Thank you.

Mr. Densmore?

STATEMENT OF EDWARD A. DENSMORE, JR., GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY CHARLES I. PATTON, SUPERVISOR; CHRIS CRISSMAN, AND JIM RATZENBERGER

Mr. DENSMORE. Thank you, Mr. Chairman.

We have a statement that we would like to submit for the record, and I will summarize that statement if I may.

The CHAIRMAN. That will be fine. Without objection, all statements given here today will be made a part of the record in full.

Mr. DENSMORE. We are pleased to be here today to discuss our two recent reports on Labor's administration of its employment and training activities under titles III and IV of CETA.

The first report, issued on August 28, 1981, was our first comprehensive look at how the Office of National Programs administers its grant and contract awards. Our second report, sent to you on August 31, 1981, discussed how Labor made many awards during the closing months of the past administration.

To meet the objective of our August 28 report, we reviewed a statistical sample of awards made in fiscal year 1979. We did not visit awardees as part of our work. We found a number of weaknesses in ONP's procedures and practices throughout the award process.

First, ONP did not make extensive use of competition and seldom adequately justified its sole source awards. Overall, ONP considered more than one applicant only 21 percent of the time.

For the special project awards made on a sole source basis, the records seldom indicated why ONP did not consider other potential awardees.

Second only 27 percent of the 479 awards in our sample contained evidence of the cost evaluation, and only 30 percent documented technical aspects. Award files also indicated that negotiations were conducted for only one-third of the awards. Where these activities did occur, they were often poorly documented and poor negotiating techniques were used.

In addition, many of the awards approved by ONP did not adequately describe what the awardee proposed to do or justify the planned use of funds.

One of ONP's program offices often provided its potential awardees with preaward work authorization letters allowing them to start work and incur costs before the actual awards were finalized.

None of the ONP preaward authorization letters contained sufficient language to protect the Government's interest.

The award files showed little evidence of active monitoring through trips, correspondence, or other Labor-initiatives contacts with awardees of the awardees' progress in accomplishing the funded activities.

Also, 31 percent of the awardees failed to submit most—70 to 80 percent—of the required progress and fiscal reports for the latest performance period.

When ONP representatives identified awardee problems, they did not always attempt to resolve them.

Finally, ONP did not require that awardees' performance be evaluated before the awards were renewed. Based on our sample, 82 percent of ONP's awards were renewals and only 13 percent had any meaningful evaluation.

Most of ONP's problems stemmed from Labor's failure to separate grant and contract management responsibilities from program responsibilities. Consequently, most of the award activities, such as evaluating and negotiating proposals, were handled by program staff who placed little emphasis on following good grant and contracting practices.

As a result of the problems we found, we recommended that the Secretary direct ONP to: Make greater use of competitive awards for its special projects and fully justify any sole source awards, require program offices to fully carry out and document all evaluations of proposals and negotiations with applicants, require that preaward authorization letters specifically state what the Government and awardees have agreed upon to protect the Government's interest, place a greater emphasis on its monitoring activities, and prepare written assessments of an awardee's performance under prior awards before refunding the awardee.

We also recommended that the Secretary separate ONP's grant and contract management functions from its program management responsibilities.

Labor has responded positively to our recommendations and is taking actions to implement them.

The primary objective of our August 31 report was to address concerns relating to Labor's CETA titles III and IV awards from September 1, 1980, through January 31, 1981.

The sample chosen for detailed analysis consisted only of awards administered by ONP and the Office of Youth Programs, because these offices administered 89 percent of the titles III and IV discretionary funds during the specified timeframe.

We analyzed 15 ONP and 19 Office of Youth Programs awards. Detailed analysis of these 34 awards further substantiated the findings contained in our earlier report and showed that good grant and contract procedures were not always adhered to during the award process.

For example, one award for $175,790 was to study alternatives for increasing the employability of disadvantaged adolescent mothers by identifying resources and developing resource directories to provide career information and guidance.

Our review showed that the Office of Youth Programs representative responsible for this contract recommended against the award and never completed the negotiation because: One, the proposed statement of work failed to present a sufficiently understandable and defensible approach; and two, the objectives were a mishmash of evaluation, technical assistance, and direct provision of services.

Another awardee was a design, engineering, and analysis firm specializing in solar environmental systems, energy technology studies, and product servicing and marketing.

One of the contracts this awardee received during the specified timeframe was for $455,570 covering the period October 15, 1980, to October 24, 1981. The award was finalized on December 9, 1980, for the purpose of establishing an Hispanic referral and recruitment system to increase the employment opportunities for professional Hispanics in the Federal Government.

Our review showed, even though the ONP representative responsible for the contract was concerned about the contractor's capability, the project was funded at the insistence of the former Administrator of ONP.

According to the ONP representative, the negotiations took place on December 5, 1980, about 2 months after the effective date of the award. According to the ONP representative, as of August 13, 1981, no one had received employment as a result of this award.

In a July 10, 1981, telegram, the awardee was informed that the contract will not be refunded or extended when it expires in October 1981.

Another concern related to the operation of a special departmental committee established to review grant and contract proposals. We contacted each of the four committee members to discuss their role and responsibilities. One member declined to talk with us. The other three generally thought that their role and responsibilities were to review the award proposals for merit from their respective organizational positions and to ensure some measure of accountability of the funds being spent. The decisions they made on the award proposals were done on a consensus basis and not by voting.

We found no written criteria to explain why these individuals were appointed, no dates for their terms of appointments, and no written operating procedures detailing how they were supposed to carry out their responsibilities.

Also, minutes of meetings were not well maintained. The title III minutes do reflect what proposals were considered and what actions were taken but do not show who was present, what was discussed about each proposal, or how the decisions were made.

Meetings regarding title IV had no recorded minutes. We were told that only handwritten notes were kept on the proceedings and these were destroyed once the appropriate title IV program staff were notified of the committee's actions.

Labor's Employment and Training Administration has established a task force to address the problems we found. The task force is developing a directive designed to establish procedures for improving the awards process.

We have met and discussed the proposed directive with Labor officials on several occasions. Although at the time of our last meeting the directive had not been finalized, the actions Labor officials told us they planned to take appeared to be an effective means of improving the administration of its award activities.

Mr. Chairman, that concludes our statement. We will be happy to respond to any questions you or other members of the committee may have.

The CHAIRMAN. Mr. Densmore, as a general practice, your office would agree, I take it, that sole source or noncompetitive awards should be made only as an exception rather than as a general rule?

Mr. DENSMORE. Yes, sir; that is correct.

The CHAIRMAN. You would recommend that we have competitive awards from here on in?

Mr. DENSMORE. To the extent possible and feasible—yes, sir.

The CHAIRMAN. I see. And those exceptions where it is not feasible—they should be justified fully?

Mr. DENSMORE. Yes, sir.

The CHAIRMAN. Justification would most certainly address itself to providing documentation for the contract or grant file as to why this specific contractor or grantee should be named—is that right?

Mr. DENSMORE. Yes, sir.

The CHAIRMAN. More important, where arguments or specific deficiencies are presented as a result of a program representative's negotiations, those points should be addressed item-by-item before a favorable decision on funding is decided in favor of that awardee?

Mr. DENSMORE. Yes, sir.

The CHAIRMAN. As a result of your statistical sample there was no more than one awardee considered almost 80 percent of the time?

Mr. DENSMORE. That has to be qualified to this extent, Mr. Chairman: There were a number of awards that were awarded on a formula basis. In other words, a specific formula determines that awards are going to go to eligible and qualifying organizations based on criteria such as population size, income, and unemployment levels. There were also a number of awards under the farmworker program that were made competitively.

If you eliminate those awards, there are 160 left of 479; and about 80 percent of those 160 which went for other types of projects were awarded on a noncompetitive basis.

The CHAIRMAN. I see.

With regard to the vague descriptions of proposals, do you mean that even if the awardee had in mind specific targets with regard to the number of participants to benefit and specific skills, the proposal did not reflect that kind of information so anyone analyzing, like a program representative, could make an educated guess as to the accuracy of the proposed budget—is that right?

Mr. DENSMORE. That is correct, sir.

The CHAIRMAN. We are talking about hundreds of thousands, if not millions, of dollars in these award situations.

Mr. DENSMORE. Yes, sir.

The CHAIRMAN. With regard to your overall report—HRD-81-111—you said that you did not evaluate awardees' programs because your objective was to review ONP's award practices.

Could your office provide us with an outline of an approach that would assess an awardee's program for delivering employment and a review training services?

Mr. DENSMORE. Yes, sir. Let me ask Mr. Patton to address that further.

Mr. PATTON. Mr. Chairman, as you know, we are currently initiating work at your request on the Recruitment and Training Program Inc., and also the Opportunities Industrialization Centers of America Inc. In the design phase of these assignments we will be working with your staff to develop such an approach, and the results should provide the type of information that you will need with respect to program impact and how awardees are currently operating.

The CHAIRMAN. I suspect if we had this information at our disposal or at least at the disposal of awarding officers or the appropriate people at the Department of Labor, it would help them to help the awardees to do a better job. Is that correct?

Mr. DENSMORE. Most certainly.

The CHAIRMAN. And in the end the taxpayer dollars would be more beneficially spent, and perhaps we might even get some more young people to work in effective ways. Would you agree with that?

Mr. DENSMORE. Yes, sir.

The CHAIRMAN. Example A that you cited in your statement—this $175,000 award for studying alternatives for increasing employability—refers to which award?

Mr. DENSMORE. Dr. Benson Penick, sir.

The CHAIRMAN. The program representative responsible for evaluating the proposals gave several reasons, and prominent among those given is his assessment that the objectives presented a mishmash of provisions. Yet the former Administrator for ONP, Mr. Godwin, approved this project. Is that correct?

Mr. DENSMORE. Yes, sir.

The CHAIRMAN. Did your study, however, discover any information provided by the Administrator that countered the program rep's evaluation?

Mr. DENSMORE. No, sir; it did not.

The CHAIRMAN. Did you look to see if there was any additional material or information that would have countered that evaluation and justified that particular award?

Mr. CRISSMAN. Mr. Chairman, we were unable to find anything in the file.

The CHAIRMAN. So you did look?

Mr. CRISSMAN. Right—in the files.

The CHAIRMAN. Was there ever any evidence in the award files other than the program rep's?

Mr. CRISSMAN. No, sir.

The CHAIRMAN. Example B was which awardee?

Mr. DENSMORE. Solar America.

The CHAIRMAN. The purpose of this contract was to establish a referral and recruitment system to place Hispanics in Federal positions. Is that right?

Mr. DENSMORE. Yes, sir.

The CHAIRMAN. Yet this firm is a design and engineering firm that is also a custom manufacturer of energy systems. Is that right?

Mr. DENSMORE. Yes, sir.

The CHAIRMAN. What does this have to do with an expertise in Federal recruitment; or, rather, what did the program rep offer as to this firm's experience in this field?

Mr. DENSMORE. There were no written evaluations, justifications, or information with regard to the firm's capabilities in this particular field.

The CHAIRMAN. Was there anything in the file at all concerning the firm's capabilities, other than that they were an engineering firm working in the solar contracting area?

Mr. CRISSMAN. Mr. Chairman, all we had to go on when we talked to the representative responsible for the award was that he expressed concern about the contractor's capability to do this particular project.

The CHAIRMAN. Did he give the award out anyway?

Mr. CRISSMAN. He was the person charged with monitoring the award, but he had doubts, so he split the project in two phases so he could better monitor the situation to see how well they were doing.

The CHAIRMAN. What information did the Administrator for ONP provide for the benefit of the files to indicate that that particular firm would get almost a half-million dollars to perform this service?

Mr. DENSMORE. We found no information in the files, sir, to indicate any input from him.

The CHAIRMAN. As I understand it, as of August of this year no one had received employment as a result of the expenditure of this amount of taxpayer dollars.

Mr. DENSMORE. That is correct.

The CHAIRMAN. Not one person?

Mr. DENSMORE. No, sir.

The CHAIRMAN. How long had that contract gone, do you know?

Mr. CRISSMAN. It had been underway about 10 months, Mr. Chairman.

The CHAIRMAN. How much of the money was spent?

Mr. CRISSMAN. I do not know at this time, sir. I would assume that most of it had been spent up to that point.

The CHAIRMAN. That was $455,570 for the total award.

Mr. CRISSMAN. Yes.

The CHAIRMAN. Let us go to Southern Vocational College. You heard the Inspector General's earlier testimony with regard to this Southern Vocational grant. I note that your review discovered the same concerns, on pages 25 and 26 of report HRD-81-145. Your report also mentions that the program representative was told to negotiate the award by the ONP director, Mr. Godwin, who told him that the allegations were not serious. Is that right?

Mr. DENSMORE. Yes, sir; that is correct.

The CHAIRMAN. Was the program rep able to produce any preliminary report from the Inspector General that the former director of ONP could have been reading from?

Mr. DENSMORE. He indicated that he was aware of a report but that he did not have a copy of any report.

The CHAIRMAN. Did you ask him to get you a copy?

Mr. CRISSMAN. We did not ask him to get us a copy at the time and he was unable to provide it.

The CHAIRMAN. Would you ask him to get you one? I think we have got to have a copy of it.

Mr. CRISSMAN. We will, Mr. Chairman.

The CHAIRMAN. Will you provide that for the committee?

Mr. CRISSMAN. We will.

The CHAIRMAN. OK.

Now, a different program representative was sent by the ONP director to perform a site visit in the fall of 1980, prior to award of this final grant, and basically gave them a clean bill of health in spite of all these investigations and audits.

In your interview with this program rep, Mr. Barnes, did he resolve any of the allegations yet outstanding?

Mr. CRISSMAN. No, Mr. Chairman. Because he had not been officially informed of any of these allegations, his role on his particular award was only to be concerned with that award and not with allegations made on any prior awards from any other source.

The CHAIRMAN. He was aware of them though—right?

Mr. CRISSMAN. He said he was informally aware; he had not been officially notified.

The CHAIRMAN. He knew of the I.G. audit, is what I am saying—right?

Mr. CRISSMAN. Unofficially, yes, sir.

The CHAIRMAN. Is it true then that he limited his review to whatever the grantee provided?

Mr. CRISSMAN. That is true, Mr. Chairman.

The CHAIRMAN. So unless the awardee tells him of problems that exist, in this case, to your knowledge, he relied strictly on his own tour of the site and these monthly reports and invoices which we list as exhibits 4A and 4B—is that right?

Mr. CRISSMAN. That is correct, Mr. Chairman.

The CHAIRMAN. Will the staff give our panel a copy of all of these examples of monthly reports and invoices?

[Panel receives documents.]

[The material referred to follows:]

GAO Exhibit 3A

SOUTHERN VOCATIONAL COLLEGE
YOUTH EMPLOYMENT
AND TRAINING PROGRAM
IN ALLIED HEALTH OCCUPATIONS
AND SERVICES

Contract Number 99-0-1801-92-16
October 20, 1980

I. Accomplishments during reporting period

A. The classroom training component continued to move forward in high gear.

B. Participants without high school diplomas continued to get courses in reading, writing and cumputation.

C. Participants are well on the way in occupational training.

D. Participants who are neither in classroom training are being given health services such as occupational and career information, counseling, job development, job placement, and job readiness.

E. Participants continued to be provided transportation services as needed.

F. Daily counseling of enrollees have been properly documented.

G. Participant folders have been designed for each enrollee and all folders are current and up-to-date. The 30-day review has been made according to the mandate of the Federal Register.

H. Outreach, recruitment, intake and assessment, and selection of participants continued to be ongoing functions of the overall program.

I. Participants were paid incentive allowances on a timely and accurate basis. Time sheets have been properly kept, evaluated and approved for each incentive allowance receiving participant.

C-1

J. Training sessions were held in classroom instruction, outreach, counseling, job placement and occupational information during the reporting period.

II. Indication of current problem

There are no current problems which will delay our performance. Several students dropped from the program due to health and relocation reasons. However, they were replaced with backup participants.

III. Program Status

The program has served 250 participants to date. A number of applicants continue to be reviewed so that additional enrollees might be selected to participate in the overall program.

IV. Program activities to be accomplished next reporting month.

A. Participant folders will be updated.

B. Classroom training will continue.

C. Clirical training will continue.

D. Special courses in reading, writing, and computation will continue.

E. Outreach, counseling, job development and job placement functions will continue.

F. Overall program will be evaluated.

G. Additional participants will be selected to participate in the overall program throughout the national geographical area.

COST CONTRACTOR'S INVOICE

M.J File

Southern Vocational College P. Box 688 Athens, Alabama 35083	INVOICE NO. 4
CONTRACTOR'S PHONE NO. & AREA CODE (205) 727-5220 - Ex 4	DATE OF INVOICE October 20, 1980
☐ INIT. ☒ AMEND.	CONTRACT NO. 99-0-1801-92-16
	PERIOD COVERED BY CONTRACT

1 - Total costs incurred from April 21, 1980 to October 20, 1980	$212,859
2 - Estimated costs to be incurred from October 21, 1980 to November 20, 1980	$ 31,565
3 - Total actual plus estimated costs	$244,424
4 - Less payments received to date	$198,736
5 - Net amount of this request[1]	$ 45,688

Invoice Certification

The amounts claimed on this invoice constitute allowable costs in accordance with the terms of the contract.

Laurence F. Hoggard Nov. 5, 1980
Authorized Signature Date

[1] Amounts needed, by period, for initial advance

	$
	$
	$
Total	$

Project Officer Certification		OF&MS USE	
1. RECOMMENDATION PERFORMANCE SATISFACTORY FOR PAYMENT PURPOSES: yes		1. APPROPRIATION NUMBER 2. AMOUNT TO BE PAID	
4. SIGNATURE Richard Barnes	5. DATE SIGNED 11-5-80	3. EXAMINER SIGNATURE	4. DATE APPROVED

U.S. DEPARTMENT OF LABOR - MANPOWER ADMINISTRATION

87-811 O—82——5

DEPARTMENT OF LABOR
Employment and Training Administration

COST CONTRACTOR'S/GRANTEE'S DETAIL STATEMENT OF COSTS

CONTRACT/GRANT NO.
99-0-180-92-16

CONTRACTOR'S/GRANTEE'S NAME
Southern Vocational College
P.O. Box 688
Tuskegee, AL 36083

INVOICE NO.
#4

Cost Category	Contract/Grant Budget (1)	Cumulative Costs 4/21 to 10/20/80 (2)	Costs for Report Month Oct (3)	Estimated Costs 10/20 to 11/20/80 (4)
Salaries and Wages	200,400	100,218	16,702	16,703
Fringe Benefits	20,040	7,948	1,244	1,244
TOTAL PERSONNEL COSTS	220,440	108,166	17,946	17,947
Other Expenses (Specify & list below)				
Travel	6,600	4,760	357	600
Consultant	10,000	5,001	834	834
Material & Supplies	23,115	16,617	1,307	-0-
Supportive Services	146,423	32,213	4,393	4,500
Indirect Cost	92,184	46,102	7,684	7,684
TOTAL OTHER EXPENSES	278,322	104,693	14,575	13,618
TOTAL CONTRACT/GRANT COSTS	498,762	212,859	32,521	31,565

ETA 32 (Nov 1979)

Replaces MA 52 (11/67) which may be used until supply is exhausted.

67

GAO Exhibit 38

PROGRESS REPORT

SOUTHERN VOCATIONAL COLLEGE
YOUTH EMPLOYMENT
AND TRAINING PROGRAM
IN ALLIED HEALTH OCCUPATIONS
AND SERVICES

Contract Number 99-0-1801-92-16
August 10, 1981

I. Accomplishments during reporting period

A. The classroom teaching was carried out according to our timetable.

B. Participants were given special group counseling.

C. Participants continued to be provided transportation services as needed.

D. Enrollees were given daily individual counseling.

E. Participant folders have been set up on each enrollees, and each folder is up-to-date.

F. A thorough review was made on all participant folders.

G. Outreach, recruitment, intake and assessment, and selection of participants continued to be carried out by the program staff.

H. Health services such as occupation career information, counseling, job development, job placement, and job readiness were carried out.

I. Incentive allowances were paid on a timely and accurate basis to all eligible youth.

J. Staff training was carried out in recruitment and outreach.

II. Indication of current problem

There are no current problems which will delay our performance.

III. Program Status

The program has served 300 participants to date. A number of applicants continue to be reviewed so that additional enrollees might be selected to participate in the overall program.

IV. Program activities to be accomplished during next [illegible]

A. Folders will be kept up-to-date.

B. Classroom training will continue.

C. Clinical training will continue.

D. Outreach, counseling, job development and job pl[illegible] will continue.

E. Project staff will evaluate the basic components [illegible]

F. Additional participants will be selected to parti[illegible]

INSTRUCTIONS: See MA Manual (Part 50-71)

COST CONTRACTOR'S INVOICE

CONTRACTOR'S NAME AND ADDRESS
Southern Vocational College
P.O. Box 648
Tuskegee, Alabama 36083
CONTRACTOR'S PHONE NO. & AREA CODE
(205) 727-5220

INVOICE NO. #13
DATE OF INVOICE August 10, 1981
CONTRACT NO. 99-0-1801-92-16
PERIOD COVERED BY CONTRACT April 21, 1980 - September 30, 1981

☐ Ad ☒ Other

1. Total costs incurred from April 21 to July 20, 1981		$ 525,462
2. Estimated costs to be incurred from July 21 to August 20, 1981		$ 40,305
3. Total actual plus estimated costs		$ 565,767
4. Less payments received to date		$ 525,637
5. Net amount of this request		$ 40,130

Invoice Certification

The amounts claimed on this invoice constitute allowable costs in accordance with the terms of the contract.

Frances F Haygood 9-10-81
Authorized Signature Date

* Amounts needed, by period, for initial advance

	$
	$
	$
Total	$

Project Officer's Certification

OF&MS USE

1. RECOMMENDATION
PERFORMANCE SATISFACTORY FOR PAYMENT PURPOSES
1. APPROPRIATION NUMBER
2. AMOUNT TO BE PAID
4. SIGNATURE
5. DATE SIGNED
3. EXAMINER SIGNATURE
6. DATE APPROVED

U.S. DEPARTMENT OF LABOR - MANPOWER ADMINISTRATION

MA 5101-1 (11-81)

U.S. DEPARTMENT OF LABOR
Employment and Training Administration

COST CONTRACTOR'S/GRANTEE'S DETAILED STATEMENT OF COSTS

CONTRACT/GRANT NO.
99-6-1801-92-16

CONTRACTOR'S/GRANTEE'S NAME
Southern Vocational College
P.O. Box 689
Tuskegee, Alabama 36083

INVOICE NO.
#13

Cost Category	Contract/Grant Budget (1)	Cumulative Costs 4/21/80 to 7/20/81 (2)	Costs for Report Month: July (3)	Estimated Costs 7/21/81 to 8/20/81 (4)
Salaries and Wages	283,956	250,554	16,704	16,704
Fringe Benefits	26,250	20,368	1,448	1,448
TOTAL PERSONNEL COSTS	310,206	270,922	18,152	18,152
Other Expenses (Specify & list below)				
Travel	14,805	6,888	486	2,800
Consultant	14,165	12,505	834	834
Materials & Supplies	27,664	19,853	250	-0-
Supportive Services	104,970	87,513	5,477	10,000
Indirect Cost	139,452	127,782	8,519	8,519
TOTAL OTHER EXPENSES	387,056	254,540	15,596	22,153
TOTAL CONTRACT/GRANT COSTS	697,262	525,462	33,748	40,305

Rep [illegible] (11/67) which may be used until supply is exhausted.

ETA 32 [illegible] 1979

The CHAIRMAN. As I understand it, these are examples of submissions from Southern Vocational College. On the invoice section at the bottom left, we have the recommendations signoff and signature of this program rep. In your opinion, does this substitute for a complete, objective review?

Mr. PATTON. No, sir. While this is helpful and the information can certainly be used to monitor the program to a degree, you have to at least engage in some form of verification of what you find on these documents.

The CHAIRMAN. Is this program representative an accountant or a contract officer—in this case?

Mr. PATTON. Not to our knowledge.

The CHAIRMAN. On page 11 of your statement, you discuss the role of the steering committee. This committee approved or disapproved awards, as I understand it; so they are taking responsibility for crossing t's and dotting i's. It seems that they can have it on one side of the fence or the other: Either they are not responsible, because they cannot accommodate all the details and recommendations from program reps; or if the decision is made to award, they should possess information not available to program reps. At least, these are my observations.

Mr. CRISSMAN. Your observations are correct, Mr. Chairman.

The CHAIRMAN. If this steering committee mechanism is supposed to substitute for normal Government award procedures, then should not its own internal records and documents reflect this themselves?

Mr. CRISSMAN. That was the only problem with the steering committee. As evidenced in our report, we found very little information available on what was discussed about each particular award, who was present, and why a decision was made as to whether an award was approved or not.

The CHAIRMAN. So you are saying that one of the recommendations you were making here or have made to the Department of Labor is that there should have been written operating procedures and a record of these procedures made in the case of every award or grant?

Mr. CRISSMAN. To provide an adequate audit trail, that is true, Mr. Chairman.

The CHAIRMAN. I see. And that would of course help the Department, would justify the file, would justify the award, and in the end you would be able to see how effective that particular awardee was with the use of taxpayer funds?

Mr. CRISSMAN. That is correct.

The CHAIRMAN. Senator Kennedy?

Senator KENNEDY. I do not think you would get any argument out of any of us about the importance of competitive bidding in the granting of various contracts.

Could you just review again what your information was with regard to the sole source contracts that were granted? I think you said about 80 percent, did you not?

Mr. DENSMORE. In our sample in the first report, Senator, there was a total of 479 awards in the universe. We eliminated about 319 of those, because they were awarded on a formula basis or because

they were farmworker programs for which competitive bidding procedures were followed.

Of the 160 awards that remained, these were special projects—one-of-a-kind types of awards. Approximately 80 percent of those 160 were awarded on a sole source basis.

Senator KENNEDY. I see. And how many of those were continuing programs?

Mr. PATTON. The percentage, as I recall, was about 80 percent.

Senator KENNEDY. Of those 80 percent were just ongoing and continuing programs—is that right?

Mr. PATTON. Yes, sir; I think that is the correct figure.

Senator KENNEDY. So 80 percent of the 80 percent were just ongoing and continuing grants. Is that correct?

Mr. DENSMORE. Yes, sir.

Senator KENNEDY. How typical is that in other agencies of Government—for example, in the Defense Department?

Mr. DENSMORE. I cannot answer that, because we have not been involved with Defense Department programs, Senator. I do not know the answer.

Senator KENNEDY. I am just trying to get information myself on it, and I am just interested in how unique or unusual that is.

Mr. DENSMORE. There are a number of grants or contracts that would be on a continuing basis. What we cannot answer is what the percentage would be in other places.

Senator KENNEDY. Let me ask you just a subjective question. That is, to the extent that you believe that the problems that the GAO has identified here are basically institutional and procedural, and to the extent that they are basically subjective or part of inappropriate behavior I would be interested in your assessment.

Mr. DENSMORE. Yes, sir. What we did was look at the system—the policies, procedures, and practices—and we found that they were poor; they were not good; there was not a good contracting system; there were not good policies and procedures that require what we consider to be good contracting principles.

Senator KENNEDY. I see.

Mr. DENSMORE. That is why our recommendations were addressed to improving the management of the administration of grants and contracts.

Senator KENNEDY. To the system's change?

Mr. DENSMORE. Yes, sir.

Senator KENNEDY. Most of these recommendations are aimed at I guess what you would characterize as sloppiness at best and perhaps mismanagement, or whatever. I gather from what you are saying that basically they did not within this Department have the kind of discipline, the kind of auditing, and the kind of management procedures which you feel are in the best interest of protecting the taxpayers' money and achieving the objectives of the legislation.

Mr. DENSMORE. That is correct, sir.

Senator KENNEDY. I think that is important for us to know. Obviously, those are matters which we in this committee have to address and the Department itself has to address.

Do you have any idea whether those procedures have been changed since you made your recommendations?

Mr. PATTON. Yes, sir; we do. We have worked with the administration. They are developing a directive designed to implement most of our recommendations.

Senator KENNEDY. Fine. That is certainly important.

In conducting your review of the CETA awards, did you interview the former Secretary, Ray Marshall, or determine what the policies were in connection with such awards and whether he thought the procedures that were being followed were proper?

Mr. PATTON. No, sir; we did not.

Senator KENNEDY. Why did you not?

Mr. PATTON. Normally it is our practice, when we are evaluating particular projects or programs, to deal with the officials that are in the current administration. Obviously, we were reviewing the files at Labor, looking at documents that were there, and dealing with the individuals that are currently handling those programs and those particular awards.

Senator KENNEDY. He was Secretary of Labor then. He bore the responsibility for that Department, did he not?

Mr. PATTON. Yes, sir.

Senator KENNEDY. When you saw the failure to develop procedures which you have identified here, would you not go to the head of the Department and ask him what was going on and say, "How do you respond to these concerns that we have developed?"

Mr. DENSMORE. Our policy is that when we do complete our work and we prepare a draft report, we do send it to the agency for comments.

Now, you have a situation here where the report was prepared after Secretary Marshall had left; so the report went to the then-current Secretary of Labor; and he commented on the policies, procedures, and findings.

Senator KENNEDY. While you were doing the review itself, you did not feel compelled to talk to him, in spite of the fact that you had found what you considered to be flawed procedures? You did not feel compelled, prior to the time you were going to make the report to the Congress, to talk to Mr. Marshall?

Mr. DENSMORE. Very seldom, sir, do we have the opportunity to deal directly with a Cabinet-level official with regard to a particular report.

Senator KENNEDY. Did you request it, or did you not request it?

Mr. DENSMORE. No, sir; we did not.

Senator KENNEDY. Did you in the course of your review interview Lamond Godwin, the former director of the Office of National Programs?

Mr. PATTON. No, sir; we did not.

Senator KENNEDY. Did you request such an interview?

Mr. PATTON. No, sir; we did not.

Senator KENNEDY. Why did you not?

Mr. PATTON. Again, as I mentioned, we dealt with the Acting Administrator who was handling the programs. For that reason, we did not contact Lamond Godwin.

Senator KENNEDY. I suppose what we are basically talking about in this hearing is criticizing the procedures which were established under his responsibility. That is what I am hearing this morning. I am just wondering, in your outline of these procedures, why you do

not go up and talk to him and hear him out. Maybe he has got answers; maybe he has not. I would think it would be useful to our evaluation to hear what that response would be.

Mr. DENSMORE. Senator, generally it is not our practice to look for particular individuals. What we are dealing with is the system.

Senator KENNEDY. That is right. And he has a responsibility for that system, I would expect.

The CHAIRMAN. Maybe we need some procedural changes at the General Accounting Office as well, so that we go to these people and let them know what is wrong. Of course, we have to presume our Administrators are doing their jobs too and that they understand the percentages and the figures they are given.

Mr. DENSMORE. We are looking at systems, policies, and procedures that have been in effect over a period of time. Those do not always change with a change in administrations. So what we saw after the change in administration was pretty much the same policies and procedures that we saw before.

Senator KENNEDY. I see. For what period of time before?

Let me say before we go any further that I am a strong supporter of the GAO and I think they have done very effective work for the Congress in a variety of areas in which I have been interested. I want to mention that.

How long have these procedures or lack of procedures been in effect, to the best of your information?

Mr. PATTON. To the best of our knowledge, I would say since, I guess, the inception of the CETA programs.

Senator KENNEDY. Some 2, 3, 4, 5, or 7 years?

Mr. PATTON. About 5 years.

There is one point we would like to emphasize, too. While it would be important to talk to the past Administrator, I think in all cases we have to point out that you would expect to be able to find adequate documentation for the type of decisions that we were looking at—I think that is very important, and it relates to the system—such that, as these people move on, we do have evidence of what has occurred in the past.

Senator KENNEDY. Continuity and consistency, so you can make evaluations and judgments—I would think you would have to have that.

In your review, did you interview the former head of the Office of Youth Programs?

Mr. PATTON. No, sir; we did not.

Senator KENNEDY. Was there any reason for that?

Mr. PATTON. It would be the same explanation.

Senator KENNEDY. Did you interview Ernest Green, the former administrator of ETA?

Mr. CRISSMAN. Senator, we attempted to contact Mr. Green regarding his role as a member of the titles III and IV steering committee. At that point he declined through his attorney, to talk with us.

Senator KENNEDY. Did you ask him at all about his actions as the administrator of ETA or merely concerning his work on the steering committee?

Mr. CRISSMAN. Just with the steering committee.

Senator KENNEDY. Would it have been helpful if you had asked him about his work as the administrator of ETA?

Mr. CRISSMAN. It might have been helpful.

Senator KENNEDY. But that was not done?

Mr. CRISSMAN. It was not done because most of the analysis on this review was performed after Mr. Green had left office.

Senator KENNEDY. After he left office?

Mr. CRISSMAN. That is right.

Senator KENNEDY. The only point I would make is this: I would think there would be some value to interview the former ETA officials responsible for program awards, at least to hear from them in terms of making the judgment.

I have no further questions.

The CHAIRMAN. Senator Quayle?

Senator QUAYLE. Thank you, Mr. Chairman.

You have made a number of recommendations for changes in procedure. Can these changes be made administratively, or are we going to need some statutory changes?

Mr. DENSMORE. They can be made administratively, Senator.

Senator QUAYLE. In other words, you are saying that it has been bad administration and management inefficency that have brought on these problems and there are no defects in the present legislation that we have?

Mr. DENSMORE. There are no defects in the legislation. I think what we are talking about is poor grant and contract administration—lack of policies and procedures to adequately protect the interests of the Government.

Senator QUAYLE. As we rewrite the CETA law next year, would it be your recommendation not to change any of the contract procedures for employment and training programs?

Mr. PATTON. I do not think we would be in a position to comment on that at this time.

Senator QUAYLE. Oh, come on. Help us out.

Let me ask the question again. Is it just crummy administration, or are there some structural changes in the law that we are going to have to deal with? I think it is important for this committee to know. If you do not want to answer today, maybe the chairman could request you to submit it in writing for the record, but I think this is very fundamental. Are we just talking about administration, or are we talking about some legislative remedies?

The CHAIRMAN. I agree with Senator Quayle. I think it is a fundamental question. Is the law directed too broadly, because it does not put in enough restraints, restrictions, or suggestions; or does it give too much power to the Department of Labor to do whatever it wants to do?

Mr. DENSMORE. To the best of our knowledge, Mr. Chairman, there is no problem with the grant and contracting provisions in the legislation as it relates to the Department of Labor. It is the administration—the policies and procedures.

Senator QUAYLE. Just policies and procedures. So it would be your recommendation, in dealing with the legislation next year, that we do not need to really be that much concerned about changing the statutory language on contracting procedures for employment and training programs. Is that correct?

Mr. DENSMORE. That is correct, Senator.

I think that if we felt legislative changes were required to correct the problems identified in our 2 reports we would have made recommendations to the Congress in that regard. Our recommendations were directed to the Secretary of Labor so that they could be made administratively.

Senator QUAYLE. I would say the administration has got a lot of work to do then.

Thank you, Mr. Chairman.

The CHAIRMAN. You are welcome, Senator Quayle.

What you indicated, Mr. Densmore, is that you feel as though—well, all of you feel the procedures and the administration need to be tightened up.

Mr. DENSMORE. Yes, sir; that is correct.

The CHAIRMAN. You are talking about the Department of Labor's Office of National Programs which administers about $600 million each fiscal year in grant and contract awards under the Comprehensive Employment and Training Act and the Older Americans Act for Employment, Training, and Related Services.

As I understand it, you undertook this review to assess how well the office carried out its administrative processes. Mr. Patton, you indicated that you felt that these mistakes, or these excesses, or these mismanagement activities took place over the last 5 years.

Mr. PATTON. Yes, sir; it could have been over that period of time.

The CHAIRMAN. Could it have been longer than that?

Mr. PATTON. I could not be certain on that.

The CHAIRMAN. I agree with Senator Kennedy: If you found that there was a mismanagement problem, I would hope you would refer this back to the Labor people. If there is a mismanagement problem, I think you ought to chat with the managers themselves to point it out.

Did you think that you really needed to do that in this case, or was this so easy to understand that any manager should be looking at it?

Mr. DENSMORE. We did not think, Mr. Chairman, that it was necessary to go back to the people that had been in the prior administration, because we were dealing with systems policies, procedures, and practices that have been carried out over a period of time.

The CHAIRMAN. In other words, when you did this review for me, it was after Mr. Godwin and Mr. Green had left?

Mr. DENSMORE. That is true on the CETA III and IV report—yes, sir.

The CHAIRMAN. I see. So there is no reason to go back to them with regard to that?

Mr. DENSMORE. That is correct.

The CHAIRMAN. Were you investigating them and doing general analysis while they were in office?

Mr. DENSMORE. We were not investigating any specific individuals. What we were looking at was the system by which Labor awarded its grants and contracts.

The CHAIRMAN. I see. Are you telling me that the GAO really desires to stay out of those political decisions or decisions that regard management decisionmaking?

Mr. DENSMORE. No, sir. I think we are talking about management and decisionmaking that did take place. However, what we are pointing out is that there were a number of deficiencies in the way the decisions were made. They did not have good contracting policies and procedures.

The CHAIRMAN. Can you give us any reason, in your opinion, why they did not?

Mr. DENSMORE. No, sir.

I might say that some of the things that we are talking about here we have found in other Government agencies and other grant and contract work that we have done—the type of thing such as lack of justification for sole source awards, inadequate monitoring of performance, lack of evaluation of performance by the awardee, lack of submission of progress reports, and so forth. These are typical of other findings that we have had in other work throughout the Government. So this is not unique to the Department of Labor.

Senator KENNEDY. What was the answer to that last question? What were you saying?

Mr. DENSMORE. What we said, sir, was that the types of problems we have identified are not unique to the Department of Labor. We have seen them in other agencies and departments throughout the Federal Government where we have done contract work.

In answer to the question that you asked before, what I could not give you was the percentage.

The CHAIRMAN. You mean to tell me this is a widespread approach toward contract management in the Federal Government?

Mr. DENSMORE. In a number of instances, if you go into other departments and agencies, you will find these and similar problems.

The CHAIRMAN. What you are saying then is that the taxpayers of America are basically being ripped off because of a lack of good management and controls. Are you not characterizing it that way?

Mr. DENSMORE. What we are saying is that there is a need to improve contracting policies and practices not only in the Department of Labor but in other Government agencies.

The CHAIRMAN. All right. You back that up with some statistics. You say that of the 479 awards in your sample universe only 130—27 percent—contained evidence of cost evaluation. Would you think that to be a serious defect?

Mr. DENSMORE. Yes, sir.

The CHAIRMAN. Do you think any manager in any business in this country would fail to look at cost evaluation aspects of his business?

Mr. DENSMORE. He should not.

The CHAIRMAN. Should any manager in the Federal Government?

Mr. DENSMORE. No, sir.

The CHAIRMAN. You say that 143 awards—30 percent of your sample—had documented technical aspects, that is, work statements and evaluations. That is a pretty small percentage, is it not?

Mr. DENSMORE. Yes, sir.

The CHAIRMAN. And you are saying this is similar in other departments throughout this Government?

Mr. DENSMORE. I am saying that you would find these and similar problems; but we cannot, once again, relate the percentages.

The CHAIRMAN. Do you consider this serious?

Mr. DENSMORE. Yes, sir.

The CHAIRMAN. Very serious?

Mr. DENSMORE. Yes, sir.

The CHAIRMAN. So do I.

The award files you say also indicated that negotiations were conducted for only one-third of the awards. Costs were negotiated for 153 awards—32 percent. Is that serious?

Mr. DENSMORE. Yes, sir.

The CHAIRMAN. Very serious?

Mr. DENSMORE. Yes, sir.

The CHAIRMAN. Does any of this shock you?

Mr. DENSMORE. No, sir. [Laughter.]

The CHAIRMAN. Why does it not shock you, Mr. Densmore? It shocks the heck out of me, I will tell you. Why does it not shock you?

Mr. DENSMORE. Because we have seen similar situations in other places, Mr. Chairman.

The CHAIRMAN. Overall, this is somewhat shocking?

Mr. DENSMORE. Yes, sir.

The CHAIRMAN. You are doggone right, it is.

Let me ask you this: You say that negotiation on technical aspects occurred in 151 awards—32 percent. Where these activities did occur, they were often poorly documented and poor negotiating techniques were used.

What you are saying here is what this thing is all about—that is, we do not want this to happen again. In other words, the individuals may be incidental in this matter. We are not out here to try and malign anybody. We want to stop this stuff. We want to get the Government under control and get people so that they work in a dedicated fashion. There are many people in the Government, you are saying, who do work; but apparently there are some who are not doing it either in a dedicated fashion or in a competent fashion. Is that correct?

Mr. DENSMORE. Yes, sir.

The CHAIRMAN. OK. You also say 34 percent of the awards showed no evidence of monitoring, 47 percent showed little monitoring, and only 19 percent showed regular monitoring. What do you think about that? Is that serious?

Mr. DENSMORE. Yes, sir.

The CHAIRMAN. Would you want your business run that way?

Mr. DENSMORE. No, sir.

The CHAIRMAN. And 31 percent of ONP's awardees failed to submit most of these—"70 to 80 percent of the required progress and fiscal reports for the latest performance period at the time of our review." Is that serious?

Mr. DENSMORE. Yes, sir.

The CHAIRMAN. Very serious?

Mr. DENSMORE. Yes, sir.

The CHAIRMAN. Is that not shocking to you?

Mr. DENSMORE. No, sir. [Laughter.]

The CHAIRMAN. The reason it is not shocking is that it is, as you said, widespread throughout the Government. Is that correct?

Mr. DENSMORE. Yes, sir.

The CHAIRMAN. But the fact that it is widespread throughout the Government is shocking, is it not?

Mr. DENSMORE. Yes, sir.

The CHAIRMAN. "Twenty-four percent did not submit most of the required reports for prior reporting periods." Is that serious?

Mr. DENSMORE. Yes, sir.

The CHAIRMAN. Could you run a business that way?

Mr. DENSMORE. No, sir.

The CHAIRMAN. "In only 17 percent of the cases where most reports were not submitted did we find evidence that ONP tried to obtain the missing reports." Is that serious?

Mr. DENSMORE. Yes, sir.

The CHAIRMAN. You said that based on your sample 82 percent of ONP's awards were renewals. I know this may be an unfair question—and you can answer it that you think it is unfair—but would you have issued renewals under those circumstances?

Mr. DENSMORE. I think the point we are trying to make, Mr. Chairman, is that when you are going to renew, it would be a good practice to evaluate the awardee's performance to see whether or not he is doing an adequate job and should have the grant renewed. If he is doing an inadequate job, you may want to think about another awardee to perform the award.

The CHAIRMAN. Would you make awards if you did not have this kind of evaluation—the kind that you are suggesting should have been changed at the Department of Labor?

Mr. DENSMORE. No, sir.

The CHAIRMAN. Thank you.

Senator Kennedy?

Senator KENNEDY. With all respect, I think you were doing a review at a time when individuals who had had responsibility for those departments; had left the Government. Since what happened during their service is obviously going to reflect on them and their professional careers, it does seem to me, just as a member of this committee, that it would be useful, wise, and helpful to this committee that those individuals be asked about the reasons for the problems that you have identified here. They are out of Government; they are doing other things. We are trying to make the judgment whether these are administrative deficiencies. Some have suggested that they are individual deficiencies.

In any event, you are not an investigative in that sense or prosecutorial part of the Government, but I do think that in fairness to those individuals it is valuable to have that information.

The other point is this: We are talking about sole source contracting; and as I understand it, the Defense Department has 12 million contracts of which 60 percent are sole source, amounting to $45 billion in 1980.

Every time they give a sole source, they publish that. They give 30 days of public notice. It does not prohibit the sole source, but it does require notification, so that interested committees or others in the Department who have responsibilities, have the opportunity to examine that. Maybe that is a useful step.

It does seem to me that given your responses to these questions our committee ought to be willing to work with the Government Operations Committee of the Senate and the House equivalent as we view the contracting procedures for all agencies of Government and make some recommendations.

I just want to indicate to you, Mr. Chairman, that I would be more than willing to work closely with you and the other members of this committee to see what can be done in terms of the contracting procedures, whether it applies to these programs or other programs, and see if we cannot find ways to try to insure that the kind of tight process and procedures are established to insure that the public's funds will be protected.

No one who listened this morning could help but be enormously distressed by the failure of procedures in the past. How long that has gone on, I guess that is difficult for us to assess. The fact is that it has gone on, and it is unacceptable, and the indications of these witnesses that it is going on in other agencies of Government make it totally unacceptable as well.

I would certainly hope that on this important issue we would not just let this thing go by, with one hearing where everyone is in here today and out tomorrow. We have some very important responsibilities that we have been reminded of in the course of this hearing, and I just want to indicate my full cooperation and support in seeing what can be done, whether in this Agency or any of the agencies we have jurisdiction over, or the extent to which we can work with our other colleagues to try and remedy this situation.

I want to thank the panel for their appearance here.

The CHAIRMAN. Thank you.

Senator Quayle?

Senator QUAYLE. Let me just ask one further question. Do you feel that the Department of Labor has failed to set aside enough resources, personnel, and money to properly administer the contract procedures?

Mr. DENSMORE. We did not address that, Senator; and I do not think we can really answer that with any basis.

Senator QUAYLE. In other words, you do not have any comment on whether they in fact paid enough attention in the matter of personnel and availability of money to make sure there was proper monitoring, evaluation, and onsite inspections?

The CHAIRMAN. That is a good question. They had people in place, did they not? There are all these jobs that could have done it if they had wanted to do it, could they not?

Mr. DENSMORE. Yes, sir. There are people who do have that responsibility.

The CHAIRMAN. And they are being paid by the Federal Government—some of them quite well—are they not?

Mr. DENSMORE. That is right. The question that we cannot answer is, do they have enough staff and funding for monitoring purposes. We did not address these questions in our work. What we found was a number of cases where proper award procedures were not being followed.

Senator QUAYLE. But they had the personnel to do it. It just simply was not being done?

Mr. DENSMORE. They had the personnel certainly to do much more of it than was being done. I cannot answer whether or not they had enough to do everything that should have been done.

The CHAIRMAN. All right. That is fair.

We want to thank you, and I want to personally thank Senator Kennedy for his cooperation and recognition that these hearings are important.

I encourage all of our colleagues in the other committees as well, just from listening to you today, that we ought to be holding these oversight hearings, and we ought to see that this type of contracting stops and that we get some sense into the Federal Government and into the utilization of taxpayer funds.

Everybody gets irritated, and some people may get maligned, because of improper procedures, improper methods, improper management, and improper administration in these areas. It is not fair to anyone concerned.

I think that if these hearings have one salutory effect it is going to be that I think everybody in the Federal Government is going to have to start thinking twice before they ignore normal and reasonable management processes and procedures with regard to giving out taxpayer moneys.

In this particular case, I am shocked by the fact that $455,000 goes out to allegedly help people get jobs and not one person gets a job in 10 months. I think of little programs all over this country where they are really busting their guts to get some of these young kids jobs, especially these young blacks—46 percent unemployed 2 months ago, and 37 percent now—and we blow $500,000 down the drain because of improper management techniques.

This kind of stuff, I think, has got to stop; and this committee is going to do everything in its power to get it to stop. And you fellows have played a very important role in this process today. I think your testimony goes beyond this committee.

It is shocking that it occurs in the Department of Labor, but it is also shocking that it is occurring elsewhere throughout Government—this albatross that every one of us pays for.

Thank you so much. We appreciate your coming.

[The prepared statement of Mr. Ahart follows:]

87-811 O—82—6

STATEMENT OF GREGORY J. AHART, DIRECTOR, HUMAN RESOURCES DIVISION, GENERAL ACCOUNTING OFFICE

Mr. Chairman and Committee members, we are pleased to be here today to discuss our two recent reports on Labor's administration of its employment and training activities under titles III and IV of the Comprehensive Employment and Training Act of 1973 (CETA) (29 U.S.C. 801, as amended by Public Law No. 95-524). CETA was enacted to provide job training and employment opportunities for economically disadvantaged, unemployed, and underemployed persons and to assure that training and other services lead to maximum employment opportunities and enhanced self-sufficiency. Both reports pointed to weaknesses in Labor's awards practices which could hamper it in achieving the act's objectives.

The first report, issued to you as Chairman of the Committee on August 28, 1981, is entitled "Labor Needs to Better Select, Monitor, and Evaluate Its Employment and Training Awardees" (HRD-81-111). This report was our first comprehensive look at how the Office of National Programs, hereafter referred to as ONP, within Labor's Employment and Training Administration, administers its grant and contract awards. ONP administers several programs for persons with severe disadvantages in labor markets through four program offices under authority contained in CETA title III. It also administers a program authorized by title IX of the Older Americans Act (42 U.S.C. 3001 and 3056), as amended by the Older American Amendments of 1975.

Our second report, sent to you on August 31, 1981, is entitled "Information on Funding Commitments From Comprehensive Employment and Training Act Titles III and IV During

Fiscal Year 1981" (HRD-81-145). This report discussed how Labor made many awards during the closing months of the past administration. These awards were administered by ONP under CETA title III and by the Employment and Training Administration's Office of Youth Programs under CETA title IV. Title IV provides for a broad range of employment and training programs to improve the employability of youths and to experiment with methods for achieving this objective. While many of the awards we reviewed were for youth programs, the award documents were signed by three ONP officials. This was done because Office of Youth Programs' officials were not delegated authority to sign grant or contract awards.

"LABOR NEEDS TO BETTER SELECT, MONITOR, AND EVALUATE ITS EMPLOYMENT AND TRAINING AWARDEES"

The objective of our August 28 report was to comprehensively evaluate how ONP administered its employment and training awards. We reviewed a statistical sample of 175 awards from an estimated universe of 479 awards made in fiscal year 1979. The 1979 awards were chosen because, at the time of our fieldwork, the awards were in place long enough to enable us to evaluate ONP's administration of them. We made a statistical sample and were able to project our sample results to the universe of 1979 ONP awards.

Since we were interested in ONP's administrative practices for awarding and administering its awards, we did not visit awardees to assess how well the service deliverers carried out award activities or to what extent the client populations

benefited. We found a number of weaknesses in ONP's procedures and practices throughout the award process. ONP

--often used sole source awards without adequately justifying them;

--rarely evaluated or negotiated award proposals sufficiently before funding them;

--sometimes authorized, without adequate safeguards, awardees to start work before the award was finalized;

--did not consistently and adequately monitor awardee performance to insure award terms were met; and

--seldom evaluated awardees before renewing their awards.

Use of sole source awards

Offering all qualified individuals or organizations the opportunity to compete for awards is an accepted principle for obtaining better work agreements and/or lower costs. While occasionally competing for awards is not practical or appropriate, we believe the principle of open competition should be the preferred method for making awards. Because of the advantages of competitively made awards, any sole source award should be fully justified as to why no other potential awardees were considered.

ONP did not make extensive use of competition and seldom adequately justified its sole source awards. Overall, ONP considered more than one applicant only 21 percent of the time (102 awards). Of the other awards, about 50 percent (237

awards) were made based on formula allocations, 1/ and 29 percent (140 awards) were made on a sole source basis for special projects 2/ without considering other organizations. For the special project awards made on a sole source basis, the records seldom indicated why ONP did not consider other potential awardees.

Evaluating proposals and negotiating with applicants

Labor regulations require that each funding proposal contain a narrative description of the proposed program and an adequate budget justification. Before making the award, ONP should fully evaluate both the cost and technical aspects of the proposal. When problems are identified, ONP should negotiate with the applicant to reach the most advantageous agreement to the Government.

Of the 479 awards in our sample universe, only 130 award files (27 percent) contained evidence of cost evaluation and only 143 (30 percent) documented technical aspects (work statements) of the evaluation. Award files also indicated that negotiations were conducted for only one-third of the awards: costs were negotiated for 153 awards (32 percent), and negotiation on technical aspects occurred in 151 awards (32 percent). Where these activities did occur, they were often poorly documented and poor negotiating techniques were used.

1/These awards were made by allocating funds to eligible and qualifying organizations based on the size of the population to be served and, for Indian programs, income and unemployment levels.

2/Other than formula awards and awards for nationally competed farmworker projects.

In addition, many of the awards approved by ONP did not adequately describe what the awardee proposed to do or justify the planned use of funds. Proposals contained vague narrative program descriptions, and salary schedules were often wrong. In a few cases, awards were made with no justification as to how funds would be used. For example, the work statement for a $1.3 million award to provide job training in the automotive, agricultural implement, and aircraft industries did not specify any skills or trades the enrollees were supposed to learn. In another case, a $2.3 million award had net budget errors of nearly $1.6 million in the original award and subsequent modifications--$688,700 in the original budget, $484,800 in the first modification, and $394,700 in the second modification. The errors were made primarily in computing enrollee wages and fringe benefits.

Preaward work authorizations

One of ONP's program offices often provided its potential awardees with preaward work authorization letters 1/ allowing

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1/Federal Procurement Regulations (41 CFR 1-3.408) and Labor procurement regulations (41 CFR 29-3.408) authorize the use of a "letter contract" as a preliminary contractual instrument which authorizes the contractor to start work when (1) the interests of the Government demand that the contractor be given a binding commitment so that work can start immediately and (2) negotiation of a definitive contract to meet the procurement need is not possible. ONP issued both "letter contracts" and "letter grants" in our sample universe. An official in Labor's Office of the Solicitor told us that there is no specific authorization for an arrangement similar to a "letter contract" which will result in a grant. However, he told us that, since "letter contracts" are binding contracts, "letter grants" would also be viewed as binding grant awards. Since the purpose of the letter contract and letter grant authorizations was the same, we are calling them "preaward work authorization letters."

them to start work and incur costs before the actual awards were finalized.

Labor's Acting Solicitor at the time of our review told us that the preaward authorization letters constitute binding agreements between ONP and awardees and legally obligate ONP to reimburse awardees for allowable costs incurred before the awards are finalized. The Acting Solicitor also told us that, if negotiations should fail to produce an award, ONP would be legally required to pay any program costs incurred by the awardee up to the point of denial.

None of the ONP preaward authorization letters contained sufficient language to protect the Government's interests. Examples of safeguards that were seldom found in the authorization letters included a dollar limit on costs authorized to be incurred, a statement of work to be performed, and a cutoff date for the authorization.

Monitoring of awardee progress

Monitoring is the process by which the Government reviews awardees' progress to make certain that it receives the goods or services for which it pays. However, the award files in our sample universe showed little evidence of active monitoring, through trips, correspondence, or other Labor-initiated contacts with the awardees. Thirty-four percent of the awards showed no evidence of monitoring, 47 percent showed little monitoring, and only 19 percent showed regular monitoring. While a primary method of monitoring is reviewing awardees' progress reports required by award terms, 31 percent of ONP's awardees failed to

submit most (70 to 80 percent) of the required progress and fiscal reports for the latest performance period at the time of our review. Twenty-four percent did not submit most of the required reports for prior reporting periods. In only 17 percent of the cases where most reports were not submitted did we find evidence that ONP tried to obtain the missing reports.

Finally, when ONP representatives identified awardee problems, they did not always attempt to resolve them. In addition, we found many problems that the representatives had not identified.

For example, although one awardee's statement of work showed it would undertake eight tasks, the files showed no evidence of anything being done on seven of the tasks. The ONP representative said that he had done nothing regarding the apparent lack of activity on the seven tasks.

Evaluating project performance before renewing awards

A major factor in a renewal decision should be the awardee's performance under the preceding award. However, ONP did not require that awardees' performance be evaluated before the awards were renewed. Based on our sample, 82 percent of ONP's awards were renewals, and only 13 percent had any meaningful evaluation.

Lack of separation of grant and contract management from program management responsibilities

Most of ONP's problems stemmed from Labor's failure to separate grant and contract management responsibilities from program responsibilities. The ONP officials charged with

insuring that good award management practices were followed were also responsible for accomplishing program objectives. Labor specialists in grant and contract management were seldom involved in ONP award activities. Consequently, most of the award activities, such as evaluating and negotiating proposals, were handled by program staff who placed little emphasis on following good grant and contracting practices.

Recommendations and Labor response

As a result of the problems we found, we made several recommendations to the Secretary of Labor. Among these are that the Secretary direct ONP to

--make greater use of competitive awards for its special projects and fully justify any sole source award,

--require program offices to fully carry out and document all evaluations of proposals and negotiations with applicants,

--require that preaward authorization letters specifically state what the Government and awardees have agreed upon to protect the Government's interests,

--place a greater emphasis on its monitoring activities, and

--prepare written assessments of an awardee's performance under prior awards before refunding the awardee.

The Secretary should also separate ONP's grant and contract management functions, including grant and contracting officer authority, from its program management responsibilities.

Labor has responded positively to our recommendations and is taking actions to implement them.

"INFORMATION ON FUNDING COMMITMENTS FROM COMPREHENSIVE EMPLOYMENT AND TRAINING ACT TITLES III AND IV DURING FISCAL YEAR 1981"

The primary objective of our August 31 report was to address concerns relating to Labor's CETA titles III and IV awards from September 1, 1980, through January 31, 1981. We made a detailed analysis of a selected sample of awards and reviewed the operation of the CETA title III/IV steering committee.

Detailed analysis of a selected sample of awards

The sample chosen consisted only of awards administered by ONP and the Office of Youth Programs because these offices administered 89 percent of the titles III and IV discretionary funds during the specified time frame. We identified a universe of 193 awards, 88 administered by ONP and 105 by the Office of Youth Programs, and subsequently analyzed 15 ONP and 19 Office of Youth Programs' awards.

Detailed analysis of these 34 awards 1/ further substantiated the findings contained in our earlier report and showed that good contract and grant procedures were not always adhered to during the award process. Following are some examples.

Example A

The purpose of the proposed $175,790 award was to study alternatives for increasing the employability of disadvantaged

1/The awards involved 16 awardees in that some received multiple awards.

adolescent mothers by identifying resources and developing resource directories to provide career information and guidance. Our review showed:

--The Office of Youth Programs' representative responsible for this contract recommended against the award and never completed the negotiation because (1) the proposed statement of work failed to present a sufficiently understandable and defensible approach and (2) the objectives were "a mish mash of evaluation, technical assistance and direct provision of services."

--The former Administrator of ONP forwarded a preaward authorization on January 15, 1981, to start incurring costs of $20,000 for the period January 19 through February 18, 1981, despite the Office of Youth Programs' representative's recommendation against the award.

--The Office of Youth Programs' representative said there was no apparent reason for Labor to award this contract because of its limited impact upon the labor market.

--On April 2, 1981, Labor notified the awardee by telegram that the award was being terminated for the convenience of the Government. According to a Labor contracting services official, Labor paid the awardee $27,953 and closed out the award.

Example B

The awardee was a design, engineering, and analysis firm specializing in solar environmental systems, energy technology

studies, and product servicing and marketing. The company is a custom manufacturer/fabricator of energy systems and devices.

One of the contracts this awardee received during the specified time frame was for $455,570, covering the period October 15, 1980, to October 14, 1981. The award was finalized on December 9, 1980, for the purpose of establishing a Hispanic referral and recruitment system to increase the employment opportunities for professional Hispanics in the Federal Government. Our review showed:

--Even though the ONP representative responsible for this contract was concerned about the contractor's capability, the project was funded at the insistence of the former Administrator of ONP.

--According to the ONP representative, the negotiations took place on December 5, 1980, about 2 months after the effective date of the award.

--According to the ONP representative, as of August 13, 1981, no one had received employment as a result of this award.

--In a July 10, 1981, telegram, the awardee was informed that the contract will not be refunded or extended when it expires in October 1981.

Operation of the title III/IV steering committee

Another concern related to the operation of a special departmental committee established to review grant and contract proposals. Our work showed that, through a September 25, 1979,

memorandum, the Secretary of Labor established a steering committee to oversee the use of CETA title III discretionary funds. In this memorandum the Secretary designated four individuals to sit as a committee to approve or disapprove expenditures related to the approved fiscal year 1980 title III funding plan. The funding plan is the document that ONP prepares as a guide detailing the projects this office hopes to fund during the fiscal year. This committee also approved or disapproved awards from the CETA title IV funding plan, although we found no similar memorandum authorizing this action.

We contacted each of the four committee members to discuss their role and responsibilities. One member declined to talk with us. The other three generally thought that their role and responsibilities were (1) to review the award proposals for merit from their respective organizational positions and (2) to ensure some measure of accountability of the funds being spent. The decisions they made on the award proposals were done on a consensus basis and not by voting.

We found no written criteria to explain why these individuals were appointed, no dates for their terms of appointments, and no written operating procedures detailing how they were supposed to carry out their responsibilities.

Our review showed that determining if steering committee actions were appropriate was difficult because records of meetings were not well maintained. According to an ONP official, separate minutes were to be kept on titles III and IV award actions. The title III minutes do reflect what proposals were

considered and what actions were taken; however, the minutes do not show who was present, what was discussed about each proposal, or how the decisions were made. Meetings regarding title IV, on the other hand, had no recorded minutes. According to a former assistant to the committee, only handwritten notes were kept on the proceedings, and these were destroyed once the appropriate title IV program staff were notified of the committee's actions.

CURRENT ADMINISTRATION ACTIONS IN RESPONSE TO GAO'S REPORTS

Labor's Employment and Training Administration established a task force to address the problems we found. The task force was comprised of Labor officials with diverse skills, including specialists in contracting, financial management, management analysis, and program assessment. The task force is developing a directive designed to establish procedures for improving the Employment and Training Administration's awards process, which includes ONP and the Office of Youth Programs.

We have met and discussed the proposed directive with Labor officials on several occasions. Although at the time of our last meeting the directive had not been finalized, the actions Labor officials told us they planned to take appear to be an effective means of improving the administration of its award activities.

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Mr. Chairman, that concludes our statement. We will be happy to respond to any questions you or other members of the Committee may have.

PUSH FOR EXCELLENCE, INC. 930 East 50th Street Chicago, Illinois 60615 (312) 373-3366

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HAND DELIVERED

October 2, 1981

The Honorable Orrin G. Hatch
Chairman
Committee on Labor and
Human Resources
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

Your letter of September 24, 1981, addressed to the Executive Director of PUSH For Excellence, Inc., has been given to me for answer and reply.

The earlier letter from your Committee, dated July 10, 1981, was given to the Comptroller of our organization for response. Unfortunately, Mr. Ashford, the comptroller met with his untimely death before he was able to respond. This caused the delay.

In answer to your questions, we wish to first state that we are willing to cooperate fully with your Committee. Also, I wish to state that with respect to the Labor Department Grant (CETA) made to PUSH For Excellence, Inc., the following facts are stated in response to your questions.

(1) The grant was awarded in mid-January 1981.

(2) PUSH For Excellence, Inc., on its own, terminated the grant on September 29, 1981.

(3) As of this writing, PUSH For Excellence, Inc., is not administering a CETA grant.

PUSHEXCEL

(4) PUSH For Excellence, Inc., has not entered into any sub-contract nor "second tier" (sub-sub) contract. Further, we do not presently have any service project contracts nor did we enter into any during the time the grant was active.

(5) In view of our answers given above, it is evident that we have not made any payments to sub-contractors.

Should you have any further questions please direct them to me at may address indicated below.

Sincerely,

Gerald Kusner

Gerald Kusner
Assistant General Counsel
Suite 1600
The Illuminating Building
55 Public Square
Cleveland, Ohio 44113
(216) 241-1835.

Hand delivered copies to: Mr. Dan Gill
Mr. Ray Mollenhoff
Committee on Labor and Human Resources
Ms. Maggie Peak, Acting Comptroller,
Operation PUSH, Inc.
James L. Felder, Esq., Vice President
for Administration
Operation PUSH, Inc.

The CHAIRMAN. Our next witness will be the Assistant Secretary for Employment and Training, Mr. Angrisani.

Mr. Angrisani, would you raise your right hand? Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. ANGRISANI. I do.

The CHAIRMAN. Thank you. You may proceed.

STATEMENT OF HON. ALBERT ANGRISANI, ASSISTANT SECRETARY FOR EMPLOYMENT AND TRAINING, DEPARTMENT OF LABOR

Mr. ANGRISANI. Thank you, Mr. Chairman.

I am pleased to appear before you today to discuss the funding and management of discretionary programs under titles III and IV of the Comprehensive Employment and Training Act—CETA.

This administration, as you well know, is dedicated to the efficient and effective operation of all Federal programs. It is our intent at the Department of Labor that CETA programs be operated in the most cost-efficient manner possible and that programs achieve the stated goals of the act. Our management of CETA over the next year will continue to be directed at realizing these purposes.

The integrity of the Employment and Training Administration's management of CETA discretionary programs has been of great concern to me since my first day in office. When I arrived at ETA I quickly became aware that there was considerable confusion in contracting and funding of these programs. Specifically, the following situation became apparent to me:

Spending plans for discretionary programs under CETA titles III and IV were apparently oversubscribed by approximately $42 million.

In many instances, proper contracting procedures were apparently not followed.

There were no clear audit requirements or performance standards for contractors.

There was extensive reliance on noncompetitive or sole-source funding of discretionary programs.

Letters and telegraphic contracts were frequently and inappropriately utilized.

There was no systematic monitoring of contractors and grantees.

My early perception of this situation has now been confirmed by two recently released reports of the General Accounting Office—GAO—on this subject which were discussed earlier. These two reports, along with followup consultations with GAO staff, have given us valuable insights as to the shape and dimensions of the internal management problems related to our CETA titles III and IV discretionary programs as well as useful guidance on how these problems should be remedied.

Bringing order to the CETA titles III and IV discretionary programs, was one of the greatest challenges I faced during my early weeks in office. I think that this challenge was met in a way that reflects great credit upon the Department. I would now like to summarize the actions that were taken in those early weeks.

On January 21, 1981, our first day in office, an immediate freeze on any further obligations of Federal funds was imposed. This step was taken on the basis of information that procurement activities for CETA titles III and IV discretionary programs were out of control. Available resources and spending plans apparently had been oversubscribed by a wide margin. Within days, ETA staff developed reports on the extent to which these funding plans were oversubscribed as well as a complete inventory of the hundreds of contracts and grants that were "frozen in the procurement pipeline."

Over the course of the following 10 weeks, we undertook a review of each grant and contract that had been awarded under the fiscal year 1981 budgets for discretionary resources under CETA titles III and IV. I personally supervised this process and spent much time reviewing information and assessments concerning several hundred grants and contracts.

As a result of our review, we terminated more than 20 contracts and reduced the funding levels for more than 100 others. All other contracts were short-funded only through the end of the year (or sooner, in some cases) to allow sufficient time for a more thorough review of the contracts.

At the same time, we instructed staff to evaluate the performance of each discretionary program contractor and grantee and to thoroughly review any audits of these contractors and grantees prior to future funding.

By the end of March 1981, we had arrived at new spending plans for both CETA titles III and IV discretionary programs that were not only in balance but also designed to bring about a smoother transition to the reduced funding levels projected for fiscal year 1982. That we had regained control over our budget was amply demonstrated by our ability to absorb the midyear rescissions of $17.5 million from title III and $50 million from title IV in a manner that resulted in minimal disruption to program operations.

While we were able to handle the immediate situation through these concerted management actions, we also needed to change the system to insure that such problems would not happen again. Therefore, we undertook a review of contracting procedures in ETA and found them deficient in a number of respects.

For example, there was no tightly controlled formal process governing contracting. Therefore, I established a task force to develop a new process and procedures to be used by ETA staff for developing, awarding, and overseeing individual contracts and grants in ETA.

The task force worked under my direct oversight and included highly qualified Department of Labor employees having expertise in Federal procurement procedures, financial management and control, general administration of employment and training programs, and management analysis. The task force also worked closely with staff of the Office of the Solicitor on clarification of legal issues and with the Office of the Inspector General for advice on audit and investigatory matters.

I directed the task force to design a system to insure proper monitoring, auditing, and followup. Where this was not done formally, there would be required notification to my office and the

Office of the Inspector General. The goal is to have procedures in place making it clear exactly what is to be done and, where those procedures are not followed, to require an explanation and justification to the Assistant Secretary as to why they were not.

The new procedures are being implemented through the issuance of a formal standing agency directive, thus helping to insure a long-lasting impact in terms of avoiding future recurrences of the problems I have mentioned. I have already sent a copy of the draft directive to the committee and would be pleased to make an updated version available today. It also has been shared with the GAO, the Inspector General, the Solicitor of Labor, and other congressional committees. We have received a number of useful suggestions and are in the process of incorporating them in the directive.

I believe this directive will strengthen ETA's award and administration of contracts and grants in the following areas:

First, a more formalized and open process for funding titles III and IV discretionary programs, I am instituting a formalized internal planning process to determine which programs are to be funded under the discretionary account. The formal plan will be utilized as the sole basis for funding discretionary programs under titles III and IV. After the plan is approved at the departmental level, it will be shared with OMB and the Congress. Anyone wishing to have a proposal funded will have to go through this formal planning process or an amendment to the plan.

Second, more extensive use of competitive procedures to award contract grants. As a result of my direction it is now ETA's policy to make maximum use of competitive award procedures when issuing contracts and grants.

The CHAIRMAN. I am glad to hear that.

Mr. ANGRISANI. Except for those programs that, by law or DOL regulations, require the issuance of grants to agencies or organizations on a formula basis—for example, CETA prime sponsors and State employment security agencies—it is now our policy to require all awards to be made competitively unless it can be unquestionably justified and documented that a noncompetitive contract or grant would be in the best interests of the Government.

Third, more rigorous assessment of performance demonstrated by contractors and grantees before funding is renewed. We are now requiring that the performance of individual contractors and grantees be assessed and documented in detail before any decision is made to issue them new funding agreements. This applies to old contractors as well as new ones. I would like to emphasize that this assessment process will include determinations as to whether or not the contractors and grantees have fulfilled their responsibilities relative to audit resolution and debt collection. Preaward reviews will be required to determine the financial management capabilities of new contractors or grantees with whom the Agency contemplates doing business.

Fourth, more thorough evaluation and negotiation of contract and grant proposals. At my direction, stricter evaluation standards are being issued to insure that contract and grant proposals are thoroughly evaluated by ETA staff and that negotiations with prospective contractors and grantees are conducted in a rigorous manner and are properly documented in the official written re-

cords. Putting these standards in place will insure that there is a detailed, documented audit trail in the procurement process.

Fifth, more appropriate use of letter and telegraphic contracts. We will minimize the use of letters and telegrams that authorize contractors and grantees to begin work and incur expenses before their funding agreements have been fully executed. Given the fact that such letters and telegrams will be necessary on certain occasions, we have also established guidelines requiring that they include appropriate terms and conditions that will protect the interests of the Government.

Sixth, improved onsite monitoring of contractors and grantees. We have established new standards that will serve to increase the frequency and quality of the onsite monitoring that is conducted on our contractors and grantees. We plan to monitor each contractor and grantee onsite at least once a year. Also, Federal staff who conduct monitoring visits will be required to prepare written reports of their findings for prompt review and action by their supervisors.

Last, a methodical review of financial and progress reports submitted by contractors and grantees. New procedural requirements are in effect to insure that written financial and progress reports submitted by contractors and grantees are promptly and carefully analyzed by assigned Federal staff. Steps have also been taken to insure that delinquent reporting by contractors and grantees is detected and remedied early on.

In addition to these procedural reforms, I also intend to adopt the GAO recommendation to separate the Office of National Program's grant and contract management functions from its program management functions. The award management function, including grant and contracting officer authority, should be independent of ONP.

The CHAIRMAN. Mr. Angrisani, we will put your full statement in the record, without objection. I wonder if, in the interests of time, you could summarize the rest of it so that we can ask some questions?

Mr. ANGRISANI. OK. If I could just take a second, I will summarize this then.

Those are largely the changes we plan to make.

One other point I would like to touch on concerns some of the changes we have made in the audit resolution process, which is also in my statement, Mr. Chairman. We had some 600 backlogged audits that had been unresolved. We—Secretary Donovan and I—pledged to the Congress during last year's appropriations process that we would resolve those audits and bring ourselves to a current status.

We have done so. We have resolved the audits. Our task force is currently in place to continue into future actions on audits; and we feel at this point in time, Mr. Chairman, that we have proposed and put in place efficient protections to guard against the problems I have outlined and to bring ourselves current on audit backlogs. We are in an excellent position to move forward into the future with the programs I have outlined to you here today.

[The unstated portion of Mr. Angrisani's prepared statement follows:]

FROM THE PREPARED STATEMENT OF MR. ANGRISANI

I fully subscribe to the basic thrust of this recommendation—which is that adequate internal checks and balances cannot be maintained if an excessive degree of authority is concentrated in the hands of a single official. On this point, I assure you of my commitment that the new organizational structure of ETA will separate functions recommended in the GAO report. The procedures we are putting in place respond not only to GAO's concerns about the Office of National Programs, but will also ensure that the Assistant Secretary or any other official will not be able to subvert the contracting process. I believe that the checks and balances and requirements for documentation we have built in the system will deter abuse of the process.

The procedural reforms and organizational realignments I have just described will have a long-lasting impact in helping to ensure that the award and administration of ETA contracts and grants is typified by integrity and professionalism. Establishing through a formal agency directive the new and detailed procedures I have outlined will assure that the contracting process for discretionary programs will work in a proper and efficient manner. Although it may be impossible to be totally certain that future abuses will not take place, the new procedures will go far to ensure that the situation I found when I took office does not reoccur.

AUDIT RESOLUTION

I would now like to turn to another area which I have given highest priority. This is the area of audit resolution which I know is of interest to the Committee.

First, let me provide some background as to what we mean when we talk about audit resolution. The first step in audit resolution is the questioning of costs—that is when the auditors in their report take exception to specific costs or activities conducted by the grantee. ETA then examines the auditor's findings, reviews any additional documentation provided by the grantee, and ultimately allows or disallows the questioned costs. It is at this point, when an ETA grant officer issues a final determination, that the audit is considered "resolved." Costs which are disallowed are added to the ETA accounts receivable.

Upon assuming office, I examined the efforts undertaken by the Employment and Training Administration in the area of audit resolution. ETA has had a dismal record of taking years to address audit reports, failing to recapture misspent funds and not correcting noted systems deficiencies which lead to recurring problems. I would like to summarize for the Committee the actions I have taken to date to rectify the ETA audits situation:

On January 31, 1981, ETA held 600 backlogged audit reports. Recognizing the magnitude of this problem, I assigned first priority to the audit resolution effort and I reviewed the performance standards of appropriate managers to insure that this priority was properly reflected.

Between January 31, 1981 and June 30, 1981, I had a special task force of 22 people handling audits of national contracts—which constituted the vast majority of the audits. By June 30, 1981, ETA had reduced the number of backlogged audits to 440.

I then immediately put in place a second task force, to work side by side with the existing group, because it was clear to me that additional effort would be needed if we were to meet the Congressional mandate that all backlogged audits be resolved by September 30, 1981.

By September 30, 1981, ETA, working closely with the Office of the Inspector General, had attained our objective—ETA now holds no backlogged audits pending resolution.

A total of $200 million had been questioned by IG auditors in the backlogged audit reports. The audit resolution established that the U.S. Treasury was owed about $75 million of the $200 million in questioned costs.

What the above findings document, however, is that we have identified amounts owed the Federal Government after an extensive review of questioned costs. It does not mean that we have recouped these amounts. On each of these audits, we still must enter into a debt collection process. I detailed this time—consuming process to Senator Quayle at a June 11 hearing. As I indicated to him, I think there is a need for us to work together to rationalize that process and put a debt collection system in place that has proper incentives to pay back the Federal Government what is owed.

Briefly, the present process is as follows. A Federal determination disallowing costs is made within 4 to 6 months of the date the audit report is issued. The grantee is then entitled to a hearing before an Administrative Law Judge. Debt

collection activity must be postponed until the Administrative Law Judge's decision is rendered. At that point, we are expected to resume aggressive debt collection which, given the financing mechanisms of the public jurisdictions to which we grant CETA funds and the limited financial resources of nonprofit organizations, is a difficult problem. The entire process may take up to 3 years in some instances, and this is assuming that the grantee does not seek review of the Administrative Law Judge's decision by the Secretary and then continue the case in circuit court.

I am preparing a debt collection plan which will utilize every administrative means available to us under current law to accomplish collection. This effort will include retention of the task forces. As well, I fully intend to take all steps possible to improve and speed up our collections.

CONCLUSIONS

Mr. Chairman, I believe the procedures I have put in place will greatly strengthen the management and performance of ETA programs. The deficiencies in the management of discretionary programs that I found when I assumed office made it essential to take quick and effective management action. This has required a great deal of staff time and resources, and my own time as well, but the effort has paid off. I believe we now have an effective system in place for awarding and administering discretionary contracts and grants under CETA. Furthermore, I believe this system will prevent in the future the types of problems with which we have had to deal. This area will continue to receive my priority attention and I look forward to continuing to work with the Committee in striving to improve our programs.

This concludes my prepared statement. At this time I would be pleased to answer any questions that you or other members of the Committee may have.

The CHAIRMAN. Thank you, Mr. Angrisani.

We will, without objection, put all exhibits that have been used in this matter in the record at the appropriate place throughout this hearing.

Mr. Angrisani, you outlined the areas of concern that you found and addressed step-by-step from January through August when the GAO reports were finalized. Your office's efforts were discovering most of the same problems the GAO reports advance.

Even without these GAO studies being conducted, are you still convinced that your independent review demonstrated serious concerns in the award procedures as they existed in the ETA?

Mr. ANGRISANI. Absolutely, Mr. Chairman. The GAO study really saved us from doing an extensive analysis based on our own initial opinions and conclusions.

The CHAIRMAN. But you had already found some, and you felt that your own analysis would have come up with the same problems?

Mr. ANGRISANI. Yes, sir.

The CHAIRMAN. Let us look at how you personally view your role in this process, specifically in relation to your personal approval of certain awards. If the program reps or other subordinates disagree with either the letting of a sole source contract or itemized programmatic deficiencies and you overrule them, do you feel that you or your office should provide a written justification for your decision?

Mr. ANGRISANI. Yes, Mr. Chairman, definitely. There is no doubt that there will be times when I may disagree with the findings of our boards, and I would certainly provide all of that in writing and want it no other way.

The CHAIRMAN. And you are going to implement that as an ironclad rule?

Mr. ANGRISANI. Yes, sir. That is in our draft proposals right now.

The CHAIRMAN. I certainly hope that you adhere to that view.

On another issue, I described in my opening statement your office's frustrations in resolving a $2 million grant to PUSH For Excellence. As I explained, your office has been negotiating diligently since April of this year. Is that correct?

Mr. ANGRISANI. That is correct.

The CHAIRMAN. As I understand it, as of October 1 of this year, while in a meeting with our committee staff you were actually just about to make a final offer to the grantee with regard to its termination. Is that correct?

Mr. ANGRISANI. That is correct.

The CHAIRMAN. And the next day we notified you we had received a response—that was a letter, dated October 2, 1981—from our inquiry of PUSH For Excellence, who stated they had terminated the grant on their own—and we will put that in as an exhibit at this point, without objection—4 days before, on September 29.

[Material referred to follows:]

Exhibit # 4

DIRECTIVE: EMPLOYMENT AND TRAINING ORDER NO.

TO : NATIONAL AND REGIONAL OFFICES

FROM : ALBERT ANGRISANI
Assistant Secretary of Labor

SUBJECT : Improvements in Managing ETA National Office Administered, Job Corps and Regional Office MAT Procurements

1. Purpose.

a. To state the policy and improve the process to be used by ETA staff in the development, processing, award and oversight of National Office administered, Job Corps and Regional Office MAT contracts and grants, and

b. To establish the basis for the development and application of personnel performance standards for ETA staff affected by this Order.

2. References. P.L. 95-87; P.L. 95-507; P.L. 95-524; SO 4-76; SO 11-79; 20 CFR Part 676; 20 CFR 1.203.1; 29 CFR Part 89; 41 CFR 1-15; 41 CFR 29-60; 41 CFR 29-70; DLMS-2 Chapter 800 thru 839; DLMS-6 Chapter 920 thru 928; DLMS-8 Chapter 1600; MA Manual Section 2457 and 3117; ETO 4-80; ET Manual Section 2464; FM 216-81, Change 1; and all other applicable laws, rules and regulations.

3. Background. ETA's procurement and management practices have been criticized by various agents and members of Congress, by the news media, and by other organizations. Specific criticisms have focused on heavy use, without documented justification, of sole source vs. competitive procurement actions, the lack of assessment, monitoring and evaluation of contract/grant performance for funding or refunding considerations; and on the failure to fully document procurement actions and file required records in the official contract/grant files. Associated concerns were the lack of clear statements of work and standards for measuring performance; and the need to strengthen other pre-award activities, such as procedures for authorizing start-up activities before awards are executed.

Based on these findings, it is in the best interests of ETA to bring greater rigor and uniformity to its management of the subject contracts and grants. Consequently, this directive is being issued to provide ETA staff with guidance on policy to ensure fiscal integrity and managerial accountability in using public resources and in understanding their responsibilities concerning:

a. Established guidelines that must be followed in substantiating and obtaining approval to award a contract or grant on a noncompetitive basis.

b. Established guidelines that must be followed in managing and conducting competitive contract and grant award processes.

c. Establish standards that must be observed in monitoring and assessing the performance of individual contractors and grantees.

d. Establish standards for ensuring that official contract and grant files include all documentation required by applicable laws and regulations.

e. Establish standards for ensuring that the written terms and conditions of contracts and grants include complete and precise statements as to the work that is to be performed under the contract or grant.

f. Establish certain other safeguards such as controls and accountability mechanisms designed to ensure the integrity and capability of the non-Federal organizations with whom ETA entrusts public resources.

4. Policy. It is the policy of ETA to ensure that its contracts and grants result in the most cost-effective use of public resources. In furtherance of this policy, ETA shall:

a. Make maximum use of competitive award procedures when issuing its contracts and grants.

b. Issue contracts and grants to organizations whose fiscal integrity and capabilities have been established and documented.

c. Issue pre-award telegrams and letters or authorize retroactive contracts and grants only under stringent conditions.

d. Clearly specify the work to be performed by contractors and grantees in the terms and conditions of their procurement.

e. Rigorously monitor and assess the performance of contractors and grantees.

f. Maintain a complete record of all transactions in an official contract/grant file substantiating ETA's management of the procurement.

5. ETA Personnel Performance. ETA officials and their subordinate managers and supervisors shall ensure that the requirements and standards set forth in this ET Order are appropriately reflected in the performance standards of individual staff who are responsible for carrying out these functions and tasks.

6. Authority and Responsibilities.

a. Assistant Secretary for Employment and Training—

(1) Fulfills the statutory and regulatory responsibilities for the administration of employment and training programs as delegated by the Secretary of Labor through the Code of Federal Regulations, Orders and the Department of Labor manual series.

(2) Redelegates Contract/Grant Officer authority to the degree deemed necessary to ensure an accountable procurement process.

(3) Approves the ETA Annual Advance Procurement Plan (AAPP) to secure the Assistant Secretary for Administration and Management for approval before any procurement contained in the AAPP, or modification thereto, is initiated.

(4) Has final responsibility for the development of contracts and grants.

b. Contract/Grant Officers and Contracting Office—

(1) Are redelegated authority by the Assistant Secretary to procure property and services required by the ETA in support of employment and training programs.

(2) Authorize the processing of procurements contained in the AAPP, or modifications thereto, only after the AAPP has been approved by the Assistant Secretary for ETA and submitted by him to and approved by the Assistant Secretary for Administration and Management.

(3) Sign and issue contracts and grants.

(4) Provide assistance to program offices in such technical matters as procurement policies, laws and regulations and the development of Requests for Proposals (RFPs) and Solicitations for Grant Applications (SGA

(5) Are responsible for the publication of RFPs in the Commerce Business Daily and SGAs in the Federal Register.

(6) Ensure that procurements are made in accordance with applicable laws, regulations and administrative procedures.

(7) Track the receipt of required file documentation (annual assessments, monitoring reports, etc.) from program offices and followup on delinquent reports.

(8) Ensure that documentation is maintained in the official contract/grant files to demonstrate effective ETA management of grants and contracts, and to provide performance information for program offices to consider in the award of future procurements.

(9) Ensure that past and current performance assessments are a consideration in refunding.

c. ETA Administrators of Program Offices--

(1) Plan for the use of ETA resources as directed by the Assistant Secretary of Employment and Training.

(2) Consult with the Contracts/Grants Office concerning formula-allocated and approved AAPP procurements in order to resolve potential scheduling or procedural problems as well as to establish necessary timeframes for the processing of special requests.

(3) Prepare schedules for the development of RFPs and SGAs, panel reviews and related activities in order to ensure the timely execution of procurement activities.

(4) Initiate the documentation to the Grant/Contract Office for the development of procurement activity approved in the AAPP.

(5) Ensure that contracts and grants are timely and frequently monitored, assessed and evaluated after issuance.

(6) Specify the work to be performed by contractors and grantees in the terms and conditions of the procurement.

d. Program Officer (Federal Representative; Project Officer; Government Authorized Representative)--

(1) Has delegated responsibility from the Contract/Grant Officer to serve as the principal agent for the administration of a contract(s) and/or grant(s).

(2) Negotiates or participates in the negotiation of contracts and grants.

(3) Provides technical assistance to contractors and grantees.

(4) Monitors and assesses the quality and timeliness of contractor/grantee performance to ensure compliance with the terms and conditions of the funding agreement (within the constraints of other workload factors and available travel funds).

(5) Determines satisfactory or unsatisfactory performance based on pre-established standards.

(6) Notifies the contractor/grantee of problems identified through monitoring and assessment.

(7) Certifies satisfactory performance on invoices to enable prompt payment to contractors and grantees.

(8) Recommends to the Contract/Grant Officer modifications to the scope of work, price, period of performance, terms or conditions of contracts/grants.

(9) Is not authorized to commit the Government to, a change in the scope of work, price, period of performance, terms or conditions of a contract or grant, or a modification thereto.

7. Guidelines for Contract/Grants Management. This section provides guidelines and standards for the following aspects of the procurement process:

a. Contract/Grant Officer Authority;
b. Annual Advance Procurement Plan;
c. General Pre-Award Guidelines;
d. Special Pre-Award Guidelines for Competitive Contracts and Grants;
e. Special Pre-Award Guidelines for Non-Competitive Contracts and Grants;
f. Monitoring and Assessment of Contractor and Grantee Performance;
g. Closeout/Audit Resolution/Debt Collection;
h. Contract/Grant Official File Documentation.

a. Contract/Grant Officer Authority

(1) The Assistant Secretary is delegated Contract/Grant Officer authority for Employment and Training Administration (ETA) programs by the Assistant Secretary for Administration and Management pursuant to the authority of the Secretary of Labor as provided in SO 4-76 and DLMS-2 Chapter 810.

(2) The Assistant Secretary will redelegate Contract/Grant Officer authority at his option to one or more ETA officials in the national and regional offices.

(a) The redelegation of such authority by the Assistant Secretary shall be in writing.

(b) The names of ETA officials redelegated Contract/Grant Officer authority shall be on file in the Office of the Assistant Secretary for Administration and Management (OASAM).

(3) Only the Assistant Secretary and Contract/Grant Officers have the authority to commit the Government to the price, period of performance and scope of work, of a contract, grant or other contractual agreement. All Project Officers and contractors/grantees of ETA funds, subject to this Order, shall be informed of this imperative in writing upon awarding of the procurement.

b. Annual Advance Procurement Plan

(1) All procurements anticipated for the fiscal year which are expected separately to amount to over $10,000 and those $10,000 or less in the aggregate shall be part of the Annual Advance Procurement Plan (AAPP), except that formula-funded programs or programs which have congressionally-mandated service deliverers are exempt from this requirement. The AAPP must include contracts/grants for consulting, research and demonstration, experimentation and evaluation, even if intended for nonprofit organizations. The coverage for consulting services has been expanded by OMB to add categories for 1) management and professional services, 2) special studies and analyses, 3) management and professional services and special studies and analyses funded by R&D monies.

(2) Priorities for AAPP procurement with private profit-making firms shall be in the following order as required by Public Law 95-87:

(a) Concerns which are located in labor surplus areas, and which are also small business concerns, on the basis of total set-aside.

(b) Concerns which are small business concerns on the basis of a total set-aside.

(c) Concerns which are small business concerns, on the basis of a partical set-aside.

(d) Concerns which are located in labor surplus areas, on the basis of a total set-aside.

(e) Competitive procurement without restriction.

(f) Sole source procurement in accordance with Department of Labor procedures set forth in DLMS-2 Chapters 830-839.

(3) Conincident with the above priorities is the requirement of Public Law 95-507 to meet the goals for small and disadvantaged businesses. These include procurements pursuant to Section 8(a) of the Small Business Act and with women-owned businesses.

(4) ETA Administrators who have programmatic responsibility for grants and contracts under a budget subprogram shall ensure that individual AAPPs and applicable addenda are developed for their subprogram component in accordance with instructions provided by the appropriate planning office, i.e., the national office component that bears the lead staff responsibility for developing and monitoring the funding plan that is followed in issuing grants and contracts under a given budget subprogram.

(5) For those procurements subject to inclusion in the AAPP, no procurement actions may be initiated unless they are part of the AAPP, or modifications thereto, approved by the Assistant Secretary and submitted to OASAM.

c. General Pre-Award Guidelines. This section is applicable to all procurements subject to this Order.

(1) Contract/Grant Officers shall request the Office of the Inspector General to conduct pre-award reviews of potential contractors as contract pricing aids under the provisions of 41 CFR 1-3.809, and pre-award surveys of potential contractors and grantees to determine the adequacy of their accounting and administrative systems when these potential contractors/grantees have not had contracts/grants with the Department within the three fiscal years before the prospective contract/grant award. Inability of the Inspector General's Office to conduct such pre-award reviews and surveys within 10 working days of the request shall not necessarily block the procurement. The Contract/Grant Officer shall determine whether the procurement can proceed absent such review or audit or whether the procurement can proceed and be conditionally awarded pending the receipt of such information within 60 days of the request. A record of these actions and the responses received shall be part of the official contract/grant file maintained by the Contract/Grant Officer.

(2) When a potential contractor/grantee currently has or has had a contract/grant within the last two years with ETA, the ETA Administrator with programmatic responsibility for the potential contract/grant shall ensure that a performance assessment of these contracts/grants is made from a review of documents in the official files. At a minimum these assessments shall measure performance against the goals and standards, reporting requirements, and financial requirements specified in the contract/grant. In addition ETA Administrators and Contract/Grant Officers shall take into consideration the factors noted below before recommending or authorizing the refunding or award of a new contract or grant. In making the necessary judgements, such Administrators and officers should consider the recency of the circumstances, the corrective action taken since the findings, the actual liability on the part of the contractor/grantee, the impact on the contractor/grantee's ability to meet Federal standards, and the relation of the factors to other information available. These factors are:

(a) Indications of poor past performance and inability to meet Federal standards based on review of closeout information.

1 Unauthorized delay in submission of final billing to DOL (beyond 90 days of expiration date).

2 Failure to return closeout package (within 90 days of expiration date).

3 Failure to properly report and dispose of government property as instructed by DOL.

4 Failure to return outstanding advances within 120 days of expiration date.

5 Final billings reflecting serious line item or total budget cost overrun.

(b) Indications of poor past performance and inability to meet Federal standards based upon review of audit information.

1 Failure of contractor/grantee to have procured or to have arranged for their own audit coverage for any two-year period when given this responsibility by DOL.

2 Costs questioned or recommended for disallowance in an audit report in excess of 5 percent of the amount audited which have been disallowed by the contract/grant officer in the final determination and/or findings related to internal accounting and administrative controls should be considered relative to their impact on meeting Federal standards and the contractor/grantee's willingness and ability to correct such administrative and procedural inadequacies.

3 Failure to audit subrecipients within the required period when responsible for doing so.

4 Failure to establish a mechanism to resolve subrecipient audits within established timeframes.

5 Obstructing the audit process.

(c) Indications of poor past performance and inability to meet Federal standards based upon review of debt collection information.

1 Failure to respond to demand letters from DOL for repayment of debts within the stated timeframe.

2 Failure to comply with approved repayment agreement revealed through monitoring or subsequent audit.

(d) Contract/Grant Officers shall consult with ETA's Special Review Staff and the Office of Inspector General to determine if fraud exists or that charges of fraud are about to be officialy made. When fraud exists, the contractor/grantee shall not be refunded or given a new award.

(3) Letters or telegrams authorizing the expenditure of Federal funds before the final execution of the contract/grant agreement shall be issued only when it is deemed in the Government's best interests.

(a) Only the Assistant Secretary and Contract/Grant Officers so specifically authorized by the Assistant Secretary, ETA, have the authority for signing pre-award letters or telegrams which authorize the expenditure of Federal funds.

(b) Pre-award letters or telegrams shall be issued only when all parties substantially agree on all matters and shall authorize the expenditure for 30 days of no more than 1/12th of the procurement award, e.g., only $10,000 of costs shall be incurred for 30 days for a procurement of $120,000. At a minimum such letters/telegrams shall contain the amount of the award, period of performance, goals and objectives, and the scope of work.

(c) A pre-award telegram shall be followed up with a letter from the Contract/Grant Officer containing the information provided in the telegram.

(4) Retroactively effective contracts/grants and pre-contract costs shall be documented by a "Determination and Findings" section.

(5) A "Summary of Negotiations" section shall be included for each contract/grant and shall become part of the official contract/grant file maintained by the Contract/Grant Officer. The Summary shall include cost elements relative to such items as salary schedules, timeframes, travel and other costs incidental to the work required.

(6) Each contract/grant shall contain a precise and clearly articulated work statement understood by both ETA and the Contractor/Grantee.

(7) Contract/Grant Officers or their representatives shall ensure that contractors/grantees establish and maintain a financial management system which provides adequate control of Federal funds and other assets, ensures accurate financial data, and provides operational efficiency and internal controls to avoid conflict-of-interest situations and to prevent irregular transactions or activities.

(8) Contract/Grant Officers shall not authorize the issuance of a Letter of Credit unless:

(a) The award is for a period no less than 12 months.

(b) The award is for $120,000 or more.

(c) The recipient has established or shown its ability to establish and keep procedures that will minimize the time elapsing between the transfer of funds to, and their disbursement by, the recipient.

(d) The recipient's financial management system meets standards for fund control and accountability described in (1) above.

(e) The recipient has developed or shown its ability to develop and keep procedures for advances to its subrecipients or contractors which conform to standards of timing and amount imposed on the recipient by ETA.

d. Special Pre-Award Guidelines for Competitive Contracts and Grants

(1) All contracts and grants subject to this Order shall be awarded on a competitive basis to the extent practicable.

(a) Contract/Grant Officers shall ensure that a Request for Proposal (RFP) for contracts is synopsized in the Commerce Business Daily in accordance with the provisions of 41 CFR 1-1.10. At no time shall prospective bidders be furnished the Department's cost estimate of the amount of funds it has available for a particular contract. Exceptions to this policy shall be limited to the unusual circumstance wherein, for example, the parameters of a study proposal are necessarily vague.

(b) Contract/Grant Officers shall ensure that a Solicitation for Grant Application (SGA) for grants is published in the Federal Register. At a minimum, SGAs for grants shall provide goals and objectives, scope of work, period of performance, panel review and award process, timeframe for SGA submittal, reporting requirements, applicant eligibility criteria, and reference to the appropriate regulations governing the funds. Documentation of this action shall become part of the contract/grant file. SGAs may specify the maximum Federal funding available for grants.

(2) ETA Administrators shall ensure that all responsive competitive applications from bidders for contract/grant awards for which they will have program responsibility are rated by panels against rating criteria.

(a) Members of such panels drawn from components which have program responsibility for the contract or grant shall not constitute a majority on the panel nore serve as panel chairpersons.

(b) Every six months, ETA Administrators shall designate five professional staff members from their respective components to serve as prospective panel members. Designees shall be placed on a roster available to all ETA Administrators, and all designees shall be available for panel duty when requested.

(c) Panel procedures and rating criteria shall be developed by the ETA component which will have program responsibility for the award.

(d) ETA Administrators requesting the procurement shall ensure that summaries or actual copies of all assessments, financial and quarterly progress reports, or any other pertinent information on operations and performance of bidders having had a contract/grant over the past two years are made available to rating panels.

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(e) The panels shall document their findings, make recommendations based on criteria established by the program office, and submit these advisory materials to the designated selecting official(s).

(f) Justification for deviations from panel recommendations by selecting official(s) shall be documented in the panel review file, which shall be retained for not less than one year from the completion of the panel review process. Selection of nonbidder(s), unless permitted by statute or regulation, shall be deemed inapprorpiate and require the initiation of a sole-source or competitive award process. The competitive process shall, in turn, be initiated only if justified, e.g., insufficient or nonresponsive bids to the original procurement announcement.

e. Special Pre-Award Guidelines for Non-Competitive Contracts and Grants.

(1) All contracts and grants shall be awarded on a competitive basis to the maximum extent practicable consistent with pertinent laws, regulations and executive orders. Noncompetitive procurements (sole source) shall be executed only if included in the approved AAPP, or modification thereto, and after justification and approval by the ETA Administrator of the program office initiating the sole-source request, the Assistant Secretary, the Department's Procurement Review Board (PRB) in the Office of the Assistant Secretary for Administration and Management (OASAM), and the Assistant Secretary for Administration and Management (ASAM).

The only exception to this requirement is an unusual and compelling emergency where the Government would be seriously injured if delay of the contract were required. An example would be the need to replace the roof of a Job Corps Center after it was blown off in the dead of winter.

(2) The following types of contracts and grants are subject to review by the PRB and approval by the ASAM (Note: OMB is expanding the coverage for consulting to include 1) management and professional services, 2) special studies and analyses, and 3) management and professional services and special studies and analyses funded by R&D monies.):

(a) All noncompetitive awards over $10,000.

(b) All noncompetitive consulting contracts.

(c) All competitive consulting contracts over $50,000.

(d) Modifications to construction contracts over $200,000 (other than equitable adjustments pursuant to the "Changes" clause).

(e) All consulting personnel appointments.

(f) All noncompetitive discretionary grants.

In addition to review by the Procurement Review Board, proposed noncompetitive contracts for research over $10,000, are to have prior review and approval by the Assistant Secretary for Policy Evaluation and Research (ASPER).

(3) Exemptions and Partial Exemptions. The following classes of contracts, grants, agreements, or modifications are wholly or partially exempt by the ASAM from sole-source requirements, as indicated.

(a) Exemptions. While all procurements are subject to applicable laws and Federal Procurement Regulations (FPR), the following are exempt from requirements of this section:

1 Contracts, grants, or agreements, or modifications to contracts, grants, or agreements with other Federal agencies; with State or local governments and agencies thereof; or with Indian tribes on Federal and State reservations.

2 Contracts, grants, or agreements, or modifications to contracts, grants, or agreements with public agencies, or with public or private nonprofit organizations referenced to receive funds under Section 506, Title V of the Older Americans Act of 1965, as amended.

3 Contracts, grants, or agreements, or modifications to contracts, grants or agreements with public or private nonprofit organizations referenced in the Comprehensive Employment and Training Act, as amended, to receive special consideration of the Secretary, except for community-based organizations of demonstrated capabilities used in the delivery of employment and training services.

4 Purchase Orders on GSA Federal Supply Schedules.

(b) Partial Exemptions. The following are exempt to the extent indicated below:

1 Proposed Section 8(a) contracts must be included in Annual Advance Procurement Plans, but are exempt from prior review and approval from the Procurement Review Board.

2 Proposed contracts, grants, or agreements, or modifications thereto (or classes of contracts, grants, agreements, or modifications) with private nonprofit organizations may be exempted by the OASAM from noncompetitive review and approval requirements for a given fiscal year when a product or service needed is unique or where only one source can meet the Government's needs on a timely basis. There are a few instances in the Department in which program requirements and certain nonprofit sources regularly meet these criteria, e.g., NAB, HRDI.

When ETA believes that it has requirements or classes of requirements which meet these criteria, requests may be made to the Assistant Secretary for Administration and Management, Attn: AB, for a waiver of the non-competitive review process for those specific requirements for that fiscal year. Such requests shall be made by the Assistant Secretary for ETA at the beginning of the fiscal year or as such requirements occur during the year. Each proposed exemption shall be justified by demonstrating that no meaningful competition can be obtained for the procurement or class of procurements. Copies of approved exemptions shall be filed with the Office of Grants and Procurement Policy, OASAM. Once the waiver has been properly filed, noncompetitive awards may be made for exempted requirements without prior Procurement Review Board approval for that fiscal year. Such contracts, grants, agreements, or modifications must still be included in annual advance procurement plans.

(4) Noncompetitive (sole source) contracts/grants shall be executed only after they are justified and approved. The following process shall be used:

(a) The procurement must be part of the approved AAPP or modification thereto.

(b) The ETA Administrator (or RA for MAT procurement) with program responsibility for the procurement shall develop and document the justification for the sole source procurement and provide the appropriate Contract/Grant Officer with an informational copy. The Administrator shall forward the request and documented justification to the Assistant Secretary for ETA for his review and action.

(c) If the Assistant Secretary for ETA approves the request for a sole-source contract, the appropriate Contract/Grant Officer shall have any contemplated contract over $5,000 synopsized in the Commerce Business Daily before submission to the PRB. If a prospective contractor responds to the synopsis, the Contract/Grant Officer shall determine whether or not the procurement remains sole source. If the decision is that the procurement is still sole source, the requirements of DLMS 2-830 govern, and the Assistant Secretary for ETA shall submit the proposed contract, its justification and the results of the Commerce Business Daily synopsis to the PRB which will recommend approval or disapproval to the ASAM.

(d) If the Assistant Secretary for ETA approves the request for a sole-source grant, he shall forward the request and justification without publication in the Commerce Business Daily to the PRB which will recommend approval or disapproval to the ASAM.

(e) If the ASAM approves the request for sole-source procurement, the appropriate ETA Administrator shall initiate the documentation to the Contract/Grant office for the execution of the procurement.

(f) If the ASAM disapproves the request for sole-source procurement, the appropriate ETA Administrator and Contract/Grant Officer shall initiate RFP procedures for a contract and SGA procedures for a grant.

(g) Sole-source documented justification and approval or disapproval shall be part of the official contract/grant file maintained by the Contract/Grant Officer.

f. Monitoring and Assessment of Contractor and Grantee Performance

(1) All contracts/grants over $100,000 shall have one onsite monitoring review during the performance period.

(a) ETA Administrators can seek a waiver for this requirement from the Assistant Secretary of ETA for extenuating circumstances, e.g., inadequate staff resources, inadequate travel funds, shifting priorities approved by the Assistant Secretary. Also, certain types of procurements, such as a contract with a university to produce a special report utilizing a computer and minimal staff time, may also be waived from this requirement; however, such procurements shall be assessed at least once very 12 months.

(b) ETA Administrators shall ensure that contracts/grants are monitored and assessed according to a clearly-developed instrument which provides for, at a minimum, measuring accomplishments against goals and performance standards (financial and nonfinancial), remedial action for strengthening weaknesses, if any, and appropriate sanctions, such as suspension or termination; reduction in funding, scope of work or period of performance; or probation for nonperformance.

(c) ETA Administrators shall ensure that a report is prepared documenting all findings within 15 working days after the review. When major problems are identified, a letter shall be sent to the contractor/grantee requiring a corrective action plan and a specific action timetable.

(2) ETA Administrators shall develop for their area of program responsibility a system to track and analyze required contractor/grantee program and financial reports.

(a) Contractor/grantee reports shall be analyzed within ten working days of receipt to determine if reported performance meet Federal requirements and the goals and standards specified in the contract/grant agreement.

(b) Contractors/grantees shall be notified within 15 working days of delinquent reports and inaccurate reports whenever discovered.

(c) Corrective action measures or sanctions, which may include suspension of the Letter of Credit, shall be instituted for contractors/grantees which are consistently delinquent or inaccurate in their reporting or demonstrate unacceptable deviation from specified performance.

(3) ETA Administrators shall ensure that quarterly written desk reviews are prepared for all contracts/grants in their area of program responsibility.

(a) Reviews shall measure performance against goals and standards specified in the contract/grant agreement; identify all problems, such as unacceptable performance and delinquent and inaccurate reporting; and describe any corrective action taken and the results of such action.

(b) Contractors/grantees shall be notified of problems identified in the desk reviews.

(4) ETA Administrators shall ensure that a written assessment of all contracts/grants incorporating the findings of onsite monitoring and desk reviews or any other pertinent information is prepared in a timely manner for the use of review panels or other Department officials in the refunding process.

(5) ETA Administrators shall ensure that the above documentation and any other appropriate records and reports are forwarded within five working days of completion or receipt to the appropriate Contract/Grant Officer for inclusion in the official contract/grant file.

(6) All substantive discussions between ETA staff and the contractor/grantee concerning the procurement shall be recorded in writing. The record shall include, at a minimum, the date and time of the conversation, brief description or the conversation, action taken, and effects, if any, on the price and scope of work of the procurement. A copy of the record, which may be handwritten, shall be forwarded to the appropriate Contract/Grant Officer for inclusion in the official contract/grant file within five working days of the conversation. Any discussion which will change the terms of the contract or grant must be verified in writing by the Contract/Grant Officer to the contractor/grantee to make it legally authorized.

g. Closeout/Audit Resolution/Debt Collection

(1) Contract/Grant Offices shall ensure that contract/grant closeouts are performed in accordance with appropriate regulations. The basic guidelines are as follows:

(a) Closeout procedures shall be initiated before the contract/grant expiration date occurs. This specifically includes ensuring receipt by the contractor/grantee of closeout instructions.

(b) Unless an extension is authorized, all required financial reports, inventories, release forms and refunds shall be received from contractors/grantees within 90 days of the contract/grant expiration date unless otherwise specified by the Contract/Grant Officer.

(c) All debts resulting from any unallowable costs or outstanding advances shall be established and collection action pursued in accordance with applicable statutes and procedures.

(d) The closeout package shall become part of the permanent contract/grant file.

(2) The Contract/Grant office shall assist the Office of the Inspector General to conduct or arrange to conduct audits of recipient or subrecipient operations, and to determine the coverage, frequency and priority of audits.

(a) The Contract/Grant office shall ensure that all contractors/grantees have been informed before the beginning date of each contract/grant of their responsibilities for procuring or arranging for their own audit coverage and their responsibilities for auditing subrecipients.

(b) The Contract/Grant office shall ensure they observe the requirements pertaining to opportunity for grantee/contractor review of audit reports.

(c) The Contract/Grant office shall insure that final determination is issued within 120 days of receipt of the final audit report; within 180 days for non-CETA audits.

(3) The Contract/Grant office shall ensure that debt collection procedures for all funds owed the Federal government as a result of contract/grant closeout or audit resolution procedures are instituted immediately upon the determination of such amounts and aggressively pursued. Procedures prescribed in applicable regulations or other official documents shall be utilized.

h. Contract/Grant Official File Documentation

(1) The official contract/grant file for each contract/grant shall be maintained by the appropriate Contract/Grant Officer in the Contract/Grant office(s). This in no way precludes the desirability and necessity for the ETA Administrator with program responsibility for a procurement to maintain a duplicate "working" file within his component.

(2) The documentation contained in the official file, at a minimum, shall be:

(a) Certification that the procurement is part of the approved AAPP, or modification thereto, for those procurements subject to inclusion in the AAPP.

(b) Records of all actions and results pertaining to pre-award reviews and pre-award surveys.

(c) Copies of all assessments of previous contracts/grants with the contractor/grantee.

(d) Summary of negotiations for the contract/grant.

(e) Copies of pre-award telegrams and letters, if any.

(f) Copies of all documented actions concerning non-competitive procurement.

(g) Copies of all documented actions concerning competitive procurement.

(h) The official contract/grant agreement and official modifications thereto.

(i) All correspondence between the Department and the contractor/grantee.

(j) Record of all substantive discussions between the ETA component program officials and the contractor/grantee.

(k) Memoranda between program officials and Contract/ Grant Officer.

(l) Copies of all onsite and desk review reports.

(m) Records of all closeout, audit, audit resolution and debt collection activities.

(n) All assessments of contract/grant performance.

8. Effective Date. This Order is effective immediately. All ETA staff shall use the provisions of this Order for Fiscal Year 1982 operations.

Mr. ANGRISANI. Yes, we received word of that indirectly; and our Solicitor is in the process of following up on that.

The CHAIRMAN. Is it correct that, after checking throughout ETA, no one else had been notified of their decision to terminate on their own?

Mr. ANGRISANI. That is correct.

The CHAIRMAN. As I understand it, your office subsequently sent a letter to PUSH after we provided you a copy of this letter.

Mr. ANGRISANI. Yes, sir.

The CHAIRMAN. Your office and the PUSH For Excellence group have gotten together to resolve the difficulties. Is that correct?

Mr. ANGRISANI. My Solicitor is in the process of contacting them right now.

The CHAIRMAN. OK. So you will resolve that difficulty one way or another.

Mr. ANGRISANI. Yes, sir.

The CHAIRMAN. Did you listen to the testimony of the GAO?

Mr. ANGRISANI. No, I did not.

The CHAIRMAN. Have you read their written testimony?

Mr. ANGRISANI. No, I have not.

The CHAIRMAN. I recommend that you do so. I think you indicated that you have followed many if not all of their suggestions, but I would certainly pay closer attention to them.

What procedures do you have to make sure, in addition to what you have listed here today, that the people working under you actually are going to be good contract managers and awarders of grants?

Mr. ANGRISANI. First of all, I have faith in the people that I have currently in place that are helping me in this contracting process right now. But I very rarely leave things to faith. We have made some management changes that will guarantee that, and they are basically decentralized changes which essentially split the function into several components.

The first component is the administration of the contracts, as any other CETA program would be administered. The administration of these special programs will be in the administrative unit where we have the best people to do the oversight and the monitoring.

But more importantly, and consistent with the GAO recommendations, we have moved the actual contract writing process out of the ONP office into what will be our newly created budget and financial controls unit. Here we can, in fact, oversee the audit function to determine if the contract was carried out in a way that was consistent with the initial intent of the contract as it was written.

Mr. Chairman, this is the first time I have announced the creation of this new budget and financial controls unit. It is very much consistent with the directive of the GAO and the Inspector General's Office.

I would like to emphasize, if I could, for just one second, the meaning of the words "financial controls." Currently, there is no dedicated function in the Department to financial controls. I would very much like to set it up and implement it in a manner consistent with any financial controls organization of any major corpora-

tion or private sector concern where you have appropriate checks and balances, audit trails, and controls in place to insure that there is a sufficient enough decentralization of authority to catch any improper activities going on.

So not only do I have faith in the people working for me, but I think that this new system will guarantee that nothing will fall between the cracks. At least I am staking my professional management opinion on that.

The CHAIRMAN. All right.

Senator Kennedy?

Senator Kennedy. As I understand, looking through the GAO report, it appears that although some of the awards in question have been canceled and some others will either be canceled or refunded, most of the awards which were made during this period continue to be funded. Is that correct?

Mr. ANGRISANI. That is correct.

Senator KENNEDY. Does that indicate to you that most of these programs either have merit or deserve further funding?

Mr. ANGRISANI. When you say "deserve further funding"——

Senator KENNEDY. Continued funding.

Mr. ANGRISANI. Continued funding. We feel that the bulk of the programs in the CETA titles III and title IV are good programs, and the future funding of course will be contingent upon budgetary constraints as well as a current evaluation of their performance.

So I would like to say, Senator, yes; we think that the bulk of the programs are good; but I do reserve the right to do current performance monitoring of these accounts first.

Senator KENNEDY. It seems to me to make eminently good sense to want to have that kind of review, but as I understand from your response, at least in some kind of preliminary way you have made a judgment that the bulk of the programs are deserving and should continue to have funding.

Mr. ANGRISANI. To the extent that we have resources, yes.

Senator KENNEDY. Just to go back a step, was there any violation of the antideficiency law? Did the commitments that were made during this period of activity—did they violate the antideficiency law to any extent?

Mr. ANGRISANI. I am not a lawyer; it is hard for me to answer. I can tell you this though—to the extent that it helps you—the books were out of balance. If that constitutes a violation, so be it.

Senator KENNEDY. Are the GAO people still in the room?

Mr. CRISSMAN. Yes.

Senator KENNEDY. Could I ask you this? I meant to ask you previously. Would you come forward?

I apologize, Mr. Chairman; but I think this is important.

The CHAIRMAN. That is fine.

Senator KENNEDY. This is quite a morning for you.

Mr. CRISSMAN. Yes, sir.

Senator, during our review we obtained documentation from Labor which showed that as of January 30, 1981, the Department had not overobligated available CETA title III and title IV funds.

However, had the Department continued to commit funds based on its CETA titles III and IV funding plans for the remainder of

the fiscal year, they would have exceeded their authorized obligations and possibly violated the Antideficiency Act.

Senator KENNEDY. I see.

Your report, on page 11, says, "As a result, the Labor activities obligating title 3 and 4 funds had avoided any potential violations of the Antideficiency Act."

Mr. CRISSMAN. That is right. After they had made cutbacks.

Senator KENNEDY. Thank you very much.

According to the GAO report exhibits, it would appear that the last 4 months of the previous administration, according to exhibits C and D, out of 171 planned awards about 165 were still being funded. Is that correct?

Mr. ANGRISANI. I do not know exactly, Senator. I know we did not cancel them all.

Senator KENNEDY. It would not surprise you if that were the case?

Mr. ANGRISANI. No; because our attempt was to bring the books back into balance, and we cut only enough to do that.

Senator KENNEDY. If you add in the unplanned awards, exhibits E and F, it appears that out of the total 191 awards during that same period 170 are still being funded.

Mr. ANGRISANI. That is possibie.

Senator KENNEDY. So that roughly 90 percent of all the awards made during that period are still being funded. Is that right?

Mr. ANGRISANI. Probably most of them, in a reduced fashion—yes.

Senator KENNEDY. Does that indicate that, although there may be some that have had problems, as least as far as the current administration is concerned, the majority of them, at least in your judgment—the judgment of the administration—were deserving of funding?

Mr. ANGRISANI. I would say from the standpoint of the new administration coming into office, you have to spend the money that is there. Looking at the situation that we were faced with, it was totally prudent for us to bring the books into balance and keep that as our primary objective.

So to that extent the answer is, "yes." However, I would like to add that we have done no performance reviews yet and that I would reserve the right to make a full statement on that after our performance and audit reviews are done.

Senator KENNEDY. As you heard during the course of this hearing this morning, I think all of us feel strongly that there is going to have to be some kind of review of the contracting procedures and certainly a tightening up of the administration of these procedures.

What I am most interested in is to determine the extent to which there was a failure to establish procedures in a sound, thoughtful, and businesslike way, or whether they were basic and fundamental violations by individuals of some kind of procedures which had been established.

I think all of us are going to come out of this hearing with a sense that we have got to do a great deal more about it; I certainly am. But how are we going to do much about it when the Department itself now has put pretty much of a freeze on any travel and

is also going to cut back on personnel who are going to be reviewing these kinds of programs to insure that the taxpayers' moneys are going to be carefully spent?

Mr. ANGRISANI. I think one element of that equation that you did not mention, Senator, was that we are going to have sufficiently fewer contracts to monitor too.

Senator KENNEDY. Even with fewer, I understand a freeze is a freeze is a freeze, and you are not going to be able to send people out to travel around and take a look at any of these programs.

We heard a lot of questions and answers before along the lines, "Is that sound business procedure?" and, "If you were running a business and had little businesses around the country, is that sound business—not going out and seeing what is going on out there, monitoring?"

Mr. ANGRISANI. The way I would respond is that certainly the freeze is not a permanent one, unless the Federal deficit continues to grow. Then it may have to be a permanent one.

Senator KENNEDY. I have heard those speeches before. I am sure I will hear them again. But I would hope you would recognize that in trying to meet these responsibilities we must be able to do the kind of job that is going to be essential. If we cut back on the personnel who have both the skill and the training and ought to be adequately compensated to do the job, thus cutting back on the opportunities for the kind of overview and review of these contracts that is needed, I am just wondering if we are really going to be able to do the kind of effective job that needs to be done, even with reduced programs.

Mr. ANGRISANI. Senator, I do not want to be here 4 years from now going through this process on the other end of the stick. I assure you it will get done.

Senator KENNEDY. OK. What is the outstanding amount now in terms of contracts that are out? Is it about $800 million?

Mr. ANGRISANI. The number of contract?

Senator KENNEDY. No; the amount of money that is out there.

Mr. ANGRISANI. Discretionary contracts?

Senator KENNEDY. No; discretionary contracts that have been signed—the total amount that is out in the field now. Is it about $800 million?

Mr. ANGRISANI. In title III or in title IV?

Senator KENNEDY. Both.

Mr. ANGRISANI. Probably $500 million for all discretionary programs.

Senator KENNEDY. So we have got $500 million out there now, and you are saying that there is not going to be an individual who is going to be able to go out in the field and monitor that program?

Mr. ANGRISANI. No, sir.

Senator KENNEDY. What does the freeze really mean then?

Mr. ANGRISANI. The 1981 plan has about $500 million in it. The 1982 budget that was approved by the Congress in the reconciliation process has significantly less. We have about $50 million in title III discretionary funds and about $60 million——

Senator KENNEDY. Whatever it is, do you think you can have any effective monitoring systems by not having individuals who go out and monitor the programs in the field?

Mr. ANGRISANI. Considering that we will probably have in 1982 about 20 percent of the actual amount of discretionary money that we had in 1981, the answer to that is, yes; and that we are going to reallocate resources within our Department to do that job. I do assure you, the freeze on travel and expenses will be lifted once we pass this initial crunch and get into our 1982 funding process, for which I still do not have a budget, which is part of my problem.

Senator KENNEDY. Of course you have ongoing and continuing contractual responsibilities, that will be ongoing and continuing and are ongoing and continuing now, which involve hundreds of millions of dollars.

It seems to me that what we really have to do is develop the kind of procedures both in-house and also in the field to assure adequate protection of the taxpayers' resources. That is the point. When we are seeing the cutback in personnel and the freeze on the ability to travel and do monitoring, I just wonder if that is the most effective and efficient way to carry forward the kind of oversight which I think all of us want.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Kennedy.

You did indicate that the freeze, you are convinced, will come off once you get your funds?

Mr. ANGRISANI. Yes, sir. The freeze is primarily in place because of the uncertainty of 1982 budget levels. We are trying to protect all of our options. As soon as we get a budget, we will lift that freeze.

The CHAIRMAN. Will you have enough funds at that time?

Mr. ANGRISANI. Yes, sir, considering we have 20 percent of the amount of current discretionary contracts.

The CHAIRMAN. I take it that during this first period of time you are trying to get the management systems into effect, so that at least they award the contracts properly and build the file properly.

Mr. ANGRISANI. That is exactly right. We have 3,200 people in the Employment and Training Administration. With the alterations that Congress approved on PSE and the other programs, there is the ability to free up resources to do other things. One is the creation of this financial controls unit, which is going to be staffed largely by reallocations of resources within the Agency.

The CHAIRMAN. I agree with Senator Kennedy—you have to have some travel to audit these funds. As I understand it, they froze the funds in the last administration, except for Mr. Green and Mr. Godwin. Is that correct?

Mr. ANGRISANI. I do not know that.

The CHAIRMAN. That is what I understand, and maybe I am wrong on that.

You are convinced then that in the new budget you have enough money allocated for travel to resolve Senator Kennedy's problem?

Mr. ANGRISANI. I believe so.

Senator KENNEDY. It is not Senator Kennedy's problem.

The CHAIRMAN. Well, of course Senator Kennedy raised the issue, and I think properly so. I think it is well raised, and I agree with him. But the key is to make sure that you have the tools to be able to do the appropriate job. I suppose it would help you if you had, say, $500,000 more to do some of the travel.

Mr. ANGRISANI. You know, Senator, I have found that giving up money and giving up power is a very difficult thing to do in Washington. Sometimes more money presents a problem. I think our budget levels, as they were approved by the Congress, are sufficient to do the job I outlined to you. To the extent that the Congress asks me to make other changes, I will do so. But I promise you, one of the things I will not sacrifice is my own financial integrity and the integrity of the Department. We will assign appropriate resources to that, and if I do not think they are there I will come back to you.

The CHAIRMAN. You will come back and ask for the additional money?

Mr. ANGRISANI. I promise.

The CHAIRMAN. And I know that Senator Kennedy and I will work to get you those funds, if that is what you need.

Senator Quayle?

Senator QUAYLE. Thank you, Mr. Chairman.

On page 9—just to pursue the point that the chairman and Senator Kennedy made—it says, "We have established new standards that will serve to increase the frequency and quality of the on-site monitoring that is conducted on our contractors and grantees. We plan to monitor each contractor and grantee on-site at least once a year." Under the present budget you can do that?

Mr. ANGRISANI. Yes, we can, because we will have 20 percent of the current amount of funds.

Senator QUAYLE. I appreciate your statements on pages 3 and 4 outlining the management changes, because I believe that is certainly the direction that we are going to go in, and I am glad you have taken the lead on that.

I believe the heart of the matter on this question of oversight is shown on pages 12 and 13 where you say, "On January 31, 1981, ETA held 600 backlogged audit reports." On those 600, what dates are we talking about? Are we talking about 5 or 6 years ago?

Mr. ANGRISANI. Yes, they go back as far as 5 years.

Senator QUAYLE. Back to the inception of CETA?

Mr. ANGRISANI. Just about.

Senator QUAYLE. Which was when?

Mr. ANGRISANI. 1973.

Senator QUAYLE. Over that time, how much money was spent on CETA?

Mr. ANGRISANI. About $53 billion.

Senator QUAYLE. $53 billion?

Mr. ANGRISANI. In 7 years. That is PSE and the whole spectrum.

Senator QUAYLE. And that 600 I presume includes PSE?

Mr. ANGRISANI. For the most part, no.

Senator QUAYLE. It did not?

Mr. ANGRISANI. I do not believe so.

Senator QUAYLE. If you take PSE out, how much are we talking about in total audits?

Mr. ANGRISANI. Maybe $30 billion, just using round numbers.

Senator QUAYLE. $30 billion. So you are talking about $23 billion—right—of the 600?

Mr. ANGRISANI. Yes.

Senator QUAYLE. Of the $23 billion that was audited, it says on page 13 that as of September 30, 1981, a total of $200 million had been questioned by the Inspector General auditors in the backlogged audit reports. "The audit resolution established that the U.S. Treasury was owed about $75 million of the $200 million in questioned costs."

Mr. ANGRISANI. That is about correct—yes.

Senator QUAYLE. Was that $75 million of $23 billion?

Mr. ANGRISANI. Yes.

Senator QUAYLE. What percentage is that?

Mr. ANGRISANI. It is small.

Senator QUAYLE. It is very small.

Mr. ANGRISANI. Yes.

Senator QUAYLE. It is about one-half of 1 percent.

Mr. ANGRISANI. Yes.

Senator QUAYLE. How does this compare with other non-CETA programs?

Mr. ANGRISANI. I see where you are coming from.

Senator QUAYLE. I am trying to find out if this is a particular problem with CETA, or on a comparison basis perhaps CETA has been better run than it is given credit for.

Mr. ANGRISANI. Once again, there is one more element of the equation that has been left out, and that is the number of audits that we have done to get to those determined costs.

For example, in title IV, the youth programs—based on my last conversation with the Inspector General—no audits had been done of any funds in that account. So the volume of audits coming out of the Inspector General's Office and coming out of whatever areas of Government they may come from has been, in my opinion, too low.

So really we cannot get to the question you are driving at, Senator, until we first determine what is the appropriate level of audit activity in these accounts and the appropriate levels of funds to be moved over there.

When we get into CETA reauthorization, as I testified before your subcommittee, there is no doubt in my mind that we have to look at that relative to the debt collection process. I think the volume and frequency of our auditing is too small, and I think the debt collection process is too slow.

So I really cannot answer your question, except to say—and I think this is a fact—that there should be no reason in the world why we should have 600 unresolved audits. Our audit status should be current at any one time, like it is now. But as soon as the Inspector General mounts his effort into title VI and PSE on the closeout side, I expect to see that backlog go up. So I am going to have to allocate sufficient resources to keep that current.

So it is a Harvard Business School management problem when you really look at it. We have to get at the frequency and the volume of our audits before I can answer that.

Senator QUAYLE. I am just looking at the facts that are available here. If you go back and review the 600 audits over a period of 7 or 8 years, you come up with $23 billion and you find $75 million that is owed. We are not going to say that is OK. I am trying to put this on a comparison basis and see if this is really of significant difference from other programs run by the Federal Government.

I would make the case that perhaps there is a great deal of inefficiency in other Government programs as well, not just CETA. We seem to have singled out CETA in the training and employment area, which I think we have got to get into. There is no excuse for the testimony that we have had today from GAO and others. No one is trying to excuse that, but what I am trying to do is put it in its proper perspective.

If you put it in its proper perspective, you find $75 million out of $23 billion. It is very, very small, is it not?

Mr. ANGRISANI. Except that those are incomplete. We do not know how many audits should have been done. I think it is inexcusable that title VI has not had a single audit done on it.

Senator QUAYLE. Are there other backlogged cases in the audit division?

Mr. ANGRISANI. We are current in terms of the backlog right now, but the point of the matter is this: Depending on the amount of resources that the Inspector General puts into the auditing of all the accounts—and I believe there is legislation or there is something somewhere that says they should be audited every 2 years. If that was actually done, goodness knows how many unresolved audits we would have right now.

The point of the matter is that we were not auditing with the frequency that we were mandated to. The thing I can control, which is keeping the audits that were presented to us current—we have controlled. But now we have to address the other side of the equation or the other element in the equation, and that is the frequency of the audits. If they are to be done every 2 years, or in some cases every 1 year, like discretionary contracts should be, who knows what that number of unresolved audits could rise to.

It is a very difficult question to answer, and I do not think that we should try to answer it based on what is known here.

Senator QUAYLE. You probably would not have the information, but I wonder if there is a way, Mr. Chairman, that we could get a comparison with a non-CETA program, particularly in the Department of Labor, to see what kind of balance we are talking about. We might find that, on a comparison basis, the figures we had before show that it is probably better run than some of the other programs.

The CHAIRMAN. I think we should do that as part of our oversight responsibility, and I think we should check as many things in Labor as we can.

Mr. ANGRISANI. Mr. Chairman, if I could just share one comment that Mr. McBride made to me that might help—the way the Department was currently structured prior to his going there, they were spending—despite not performing the frequency level of audits that I think should have been done—about 70 percent of the resources in the Inspector General's office on CETA. So they were trying, but it is just that this is a very meticulous and time-consuming process.

When you put Federal dollars out there in the way that we do—and this is something to think about in the reauthorization process—where you have the Federal Government here, and then between us and the direct user of our services, think of the layers of government that we have to audit. We have the primes, we have

the contractors that the primes subcontract their business to, and we have the subcontractors that the contractors subcontract their business to. So we have almost three levels of administration and bureaucracy between us and the direct users. Those levels are absorbing a certain percentage of every dollar that the Federal Government intended to get to the direct user.

So when you think about that, and you think that we had some 50,000 subcontractees and grantees in the CETA process, you begin to see how big this is.

Senator, if I could, I would say to you that in the reauthorization process that you are very much in control of right now, that is a critical thing to look at. Can we afford to have all those layers of administration and bureaucracy between us and the direct user and the corresponding management problems that it develops?

I think, from where I am sitting right now, that that is a very, very difficult management job to give me and this administration and that we should use the lessons of the last 7 years to deal with that problem.

Senator QUAYLE. And you believe that in that reauthorization we can come up with some substantive changes in the delivery system.

I appreciate your comments and also your input publicly. It is a difficult area—how we are going to come up with the best system possible—but we are going to try.

Let me just follow up on that. Do you believe that in the area of auditing and contract procedures for employment training that we should have some legislative remedies, or do you believe that this can all be handled by better management and administration?

Mr. ANGRISANI. Senator, I have a great deal of confidence in my own management abilities; but I have learned in a few short months in Washington that it has got to be written for it to mean something. I would very strongly recommend to you again, as I did at your subcommittee hearing, that auditing procedures and collection procedures be addressed in the legislative process and that we get some sign-off from the Congress and the administration that these are manageable procedures. The current process that is there right now is not.

Senator QUAYLE. I think that is a very good comment. This is just diametrically opposed to what we heard before from GAO. They basically said it is just the administration. I asked the question two or three times, and they said there were no changes in legislation that were necessary. They felt it could all be corrected by better management.

Here is the person who is in charge of it, Mr. Chairman, saying to us specifically that we have got to change the contract procedures in employment and training and the auditing process as it goes on.

The CHAIRMAN. Maybe we can chalk that up to the fact that they are not policy people but you are. I agree with Senator Quayle. It is interesting that they think there need to be no changes and you feel that there must be in order to fulfill your responsibilities.

Mr. ANGRISANI. I think it is a political element. If the Federal Government were a private corporation—the GAO would be right—you could set up an audit control organization that would function at the discretion of the chairman of the company and

which could administratively accomplish what you wanted to see accomplished. A private sector organization works that way.

Given the fact that we are not a private corporation and we are the Federal Government, and given the politics that are involved and all the things that I do not need to talk about here that you all know, it is very important that, to manage it properly from my perspective, it be in writing and that the Congress sign off on it, so that I can come to you and say, "We need help in carrying out the intent of the legislation."

So GAO is looking at it—and I understand their perspective; from a puristic standpoint, they are right; but with the political elements in here it has to be in writing and it has to be clean.

As I indicated to you in our subcommittee testimony, there is an 11-step appeal process that anyone who is challenged by an audit can go through. That process can extend over a period of 5 years before I can say we might even, in fact, have a chance of getting the money back. Then when you get in a position where you might be able to get the money back, there is no guarantee that the contractor is going to be there.

I have to have something to work with here to guarantee performance.

Senator QUAYLE. Thank you very much, Mr. Angrisani. I certainly appreciate your comments.

Quite frankly, Mr. Chairman, I side with the person who is responsible for administering this. We are going to have to make some changes in the legislation.

The CHAIRMAN. You are in charge of it.

Senator QUAYLE. He is well known for his managerial expertise and ability, and here he is admitting it. Once again, he talked about it in the subcommittee hearings. That is why I wanted to bring that out—that there is a request from people who are over there for us to do something.

I look forward to working with Mr. [illegible]grisani and members of the committee to put together a good [illegible]ge. Thank you.

The CHAIRMAN. Thank you, Senator [illegible]le.

Let me just clarify a couple of points. [illegible] is that one of the first things, as I understand it—and correct me if I am wrong—you did when you got there was to stop the cost overrun—in other words, the $42 million. Is that right?

Mr. ANGRISANI. That is correct.

The CHAIRMAN. In that sense, you have saved that $42 million.

I was interested in your discussion with Senator Kennedy when you indicated that you feel that the bulk, although not all, of these programs should have continued funding. These are programs already in existence that have been funded and are continuing to be funded. Is that correct?

Mr. ANGRISANI. Yes, but I caution against taking that as a broad statement. I said that, to the extent that we are a new administration, it would be improper to make any judgment except to bring the books into balance, with that 1981 funding level. To that extent you could say that the others deserved funding.

The CHAIRMAN. That is my point. And you are presuming that the bulk of those are valid programs. Is that correct?

Mr. ANGRISANI. Yes.

The CHAIRMAN. Do you know whether they are or not?

Mr. ANGRISANI. We have no performance data that have been done by us under our new procedures.

The CHAIRMAN. Are you going to do anything about it?

Mr. ANGRISANI. Yes. That is exactly what I said in our contracting process here. We intend to be sure that, before a contract is expended in the future, performance will be analyzed against the original contract proposals. At that point you can say whether a program does deserve funding. That includes a review of any current outstanding audit items.

The CHAIRMAN. How many total projects or contracts do you have out?

Mr. ANGRISANI. I do not know. We have several hundred now. In 1982 we will probably have significantly fewer. It will be manageable.

The CHAIRMAN. In the GAO sample universe of 479, they said 73 percent had no cost evaluation whatsoever.

Mr. ANGRISANI. That is probably correct.

The CHAIRMAN. And 68 percent were unnegotiated.

Mr. ANGRISANI. That is probably true.

The CHAIRMAN. On 68 percent the costs were unnegotiated; on 34 percent there was no evidence of monitoring whatsoever; on 47 percent more there was little or no monitoring; and only 19 percent had regular monitoring.

In essence, is it fair to say that you really do not know at this point but you are starting that process of trying to find out?

Mr. ANGRISANI. From the standpoint of performance, that is correct. From the standpoint of fulfilling the obligation that we have to spend the money in that account, we feel that we have done the best job we could to do that.

The CHAIRMAN. I understand. You have presumed that most of those programs are valid, but you do not know whether they are or not, and you have to check that out.

Mr. ANGRISANI. We do not have sufficient performance data to make that an absolute statement; that is correct.

The CHAIRMAN. So there may be many that are not valid or at least are not as valid as you are presuming them to be at this time. Is that correct?

Mr. ANGRISANI. That is possible.

The CHAIRMAN. Thank you, Mr. Angrisani. We appreciate your coming and testifying. We appreciate the reforms that you are instituting down there, and we wish you luck. We hope that they stay instituted, and we hope that we do not have to have any more hearings like these.

Mr. ANGRISANI. Thank you, Mr. Chairman. It is a pleasure being here again.

The CHAIRMAN. Our next group of witnesses will be a panel of Labor Department officials: William Kacvinsky, Steve Puterbaugh, Margie Maith, Fernando Alegria, Frank Slobig, James Aaron, and Renee Crucil.

If you folks would come up and take your places, we would appreciate it.

Would you all raise your right hands? Do you all swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. KACVINSKY. I do.

Mr. PUTERBAUGH. I do.

Ms. MAITH. I do.

Mr. ALEGRIA. I do.

Mr. SLOBIG. I do.

Mr. AARON. I do.

Ms. CRUCIL. I do.

The CHAIRMAN. Do any of you have any statements to make, or would you just like us to ask questions?

Mr. KACVINSKY. No, sir.

The CHAIRMAN. We also had Ms. Deborah Barnett, a Federal representative of the Office of Youth Programs, who was to be here. She is not here, but maybe we can see where she is.

Mr. Kacvinsky is the Acting Administrator of the Office of National Programs; Steve Puterbaugh is the Director of the Program Management Staff in the Office of National Programs; Ms. Maith is the program representative of the Office of National Programs; Mr. Alegria is the Office Director of the Office of Special National Programs and Activities; Mr. Slobig is in the Office of Youth Programs; Mr. Aaron is the Federal representative of the Office of National Programs; Deborah Barnett would be a Federal representative, Office of Youth Programs. She is, as I understand it, an unofficial representative on loan from IBM; and Ms. Crucil the Federal representative for the older workers program.

Am I correct in all that?

Mr. KACVINSKY. Yes, sir.

The CHAIRMAN. OK.

Mr. Kacvinsky, for the record please relate to the committee a short résumé of your Government employment and your previous employment in the private sector.

STATEMENT OF WILLIAM KACVINSKY, ACTING ADMINISTRATOR, OFFICE OF NATIONAL PROGRAMS, DEPARTMENT OF LABOR, ACCOMPANIED BY STEVE PUTERBAUGH, DEPUTY TO ADMINISTRATOR, OFFICE OF NATIONAL PROGRAMS; MARGIE MAITH, FEDERAL REPRESENTATIVE, OFFICE OF NATIONAL PROGRAMS; FERNANDO ALEGRIA, OFFICE DIRECTOR, OFFICE OF NATIONAL PROGRAMS; FRANK SLOBIG, OFFICE OF YOUTH PROGRAMS; JAMES AARON, FEDERAL REPRESENTATIVE, OFFICE OF NATIONAL PROGRAMS; AND RENEE CRUCIL, FEDERAL REPRESENTATIVE, OLDER WORKERS PROGRAM

Mr. KACVINSKY. Mr. Chairman, prior to coming to the Government I was with the Aluminum Co. of America for 19 years in their training division. I also was an apprentice who learned his trade as a journeyman die sinker prior to going to the training division within ALCOA.

In 1962 during the Kennedy administration, I came on board with the Department of Labor under the Manpower Development and Training Act, where we set up programs which Congress had put into place for MDTA.

I was then with the Bureau of Apprenticeship and Training which had authorization for what we then called title 1 of the MDTA Act.

Then I went with the Office of National Programs when the ONP was taken away from the Bureau of Apprenticeship and Training and was made a separate unit within the Manpower Administration. With the advent of CETA, we were still a separate unit of ONP under the Employment and Training Administration.

I have been a deputy administrator of ONP since 1972.

The CHAIRMAN. Generally speaking then, you have been involved in the history of the training of minorities and economically disadvantaged people for the entire history of the program. Is that correct?

Mr. KACVINSKY. Yes, sir.

The CHAIRMAN. Would you say the program has been a failure?

Mr. KACVINSKY. No, sir.

The CHAIRMAN. If not a failure, what then would you have to say about it?

Mr. KACVINSKY. I have to go back, Mr. Chairman, to why the Office of National Programs was established under the Manpower Development and Training Act and then continued on into CETA.

Under MDTA, there was a feeling that national organizations, such as manufacturing associations and international unions, could better help in training and placing of minorities, women, and veterans into the various skilled occupations. They felt that it was better done on a national basis.

With the inception of CETA, Congress had put into the act that those programs of demonstrated effectiveness should be continued. We continued those programs on a national basis in CETA. These were people-oriented programs. These were programs where we gave direct services to individuals, helping them to get employment.

Coming from the private sector, I feel that the best way to get a job is to go on a job; where you receive wages immediately, where you get training; where you are trained by supervisors, journeymen, and skilled technicians in the area; where also industry has a commitment to this by providing wages.

This was the whole intent of the Office of National Programs from the inception of MDTA and continued on into the Employment and Training Administration.

These programs have, in my judgment, been successful. They have been cost effective, and they have done the job in placing minorities, women, and veterans into these programs.

The CHAIRMAN. Have there been any failures in these programs?

Mr. KACVINSKY. Oh, sure. You have failures—various specific failures in different types of training programs. You may have an industry where, because of an economic situation, the hiring or the training is not available, and you have got to curtail them. In others, they have been a failure because they just could not cope or do the job.

The CHAIRMAN. Have these failures been throughout the lifetime of the program, or has there been a more intense time where there have been more failures in the operation of CETA?

Mr. KACVINSKY. No, sir, there have been more good programs than bad. Those that were not good we had done away with.

The CHAIRMAN. OK.

As I understand it, you have indicated to some of our investigators that there were some changes that came back in 1977 and from that point on. Could you describe those?

Mr. KACVINSKY. Yes, sir, in the Office of National Programs, where we were directly responsible for dealing with national organizations and national associations in providing direct services—on-the-job training—to individuals, there came a change where we now started to deal with individual organizations rather than national organizations. We started to go into some, what we call, think tank-type programs where, rather than dealing with direct individuals or direct supportive services, we were now going into demonstration type of objectives.

Within ETA there is an office, which is called the Office of Policy Evaluation and Research, that does, on a regular basis, do demonstration types of programs. That is where those programs were done in the past. Within the last 2 or 3 years, they started to infiltrate into the Office of National Programs also to do the demonstration programs.

The CHAIRMAN. You have indicated there was an infiltration starting within the last 2 or 3 years of a kind of middlemen, consultants, or think tank-type people. What effect did that have on these programs?

Mr. KACVINSKY. It took the resources that we had set aside for such successful programs as national on-the-job training programs, our apprenticeship Outreach program which we later changed to the targeted Outreach program. It took the resources, not only in funds but also in personnel, away from these programs.

The CHAIRMAN. And put them where?

Mr. KACVINSKY. And put them into the other programs that were coming about—the demonstration type of programs.

The CHAIRMAN. You are talking about these middlemen-type programs and think tank-type programs—these planning-type programs?

Mr. KACVINSKY. Yes, sir.

The CHAIRMAN. I take it that you have had extensive work in both the private and public sector. Maybe you could tell us who introduced you into this world of work.

Mr. KACVINSKY. Could you repeat that, sir?

The CHAIRMAN. Who got you to start working early in your life? Tell us a little bit about your work history.

Mr. KACVINSKY. My father got me to start working immediately.

The CHAIRMAN. How was that?

Mr. KACVINSKY. When I left school, he asked me what I intended to do. When I came out of the military and he asked me what I intended to do, I told him that I intended to go and finish my education, and he said, "And then what are you going to do?" and I said, "I am going to get a job."

Well, my dad being an immigrant, he felt that no one was successful unless they worked with their hands. He thought that I ought to follow not only the higher education but I should also learn a skill in working with my hands.

Over the years, I have felt that the advice that my dad gave me was good. However, there were a lot of individuals who could not get this kind of advice. It is just one of the things that we have in our modern-day education. If you do not have a college degree or a master's degree, you are a failure. People do not look upon individuals who work with their hands—skilled technicians—as being successful in life.

I feel that these training programs that we instituted under MDPA and continued on into CETA were a way of getting individuals trained. Later, when we were going into where there was discrimination within the various trades, giving minorities the opportunities in to learn these trades, I felt that this was an area where we could do a lot of good, and we did.

The CHAIRMAN. If I understand you correctly, because of your private sector experience and public sector, you feel that these funds would better serve these young people getting them into jobs in the private sector where they can learn the skills necessary and achieve the self-esteem that comes from working, that will keep them working and producing in our society.

Mr. KACVINSKY. Yes, sir.

The CHAIRMAN. And you inherited these traits, I take it, from your father. My father believed the same thing your father did. He thought that to be worth something you really had to be able to perform a trade and use your hands, so I learned a trade too, and I understand what you are saying.

The committee has been advised by our professional staff that millions of dollars were expended—and I think GAO indicated this also—on somewhat questionable projects. Do you agree with that?

Mr. KACVINSKY. Mr. Chairman, I would almost have to go into detail project by project by project.

The CHAIRMAN. Do you believe there has been expending of millions of dollars on some questionable projects?

Mr. KACVINSKY. Yes. I would say that there were some questionable projects.

The CHAIRMAN. Our staff reviewed hundreds of procurement action request—what you call PAR's—that were requested in the final months of the last administration. Obviously, millions of dollars were approved to be spent, not only on questionable but what would appear to be curious descriptions. Perhaps I could show you what has been marked as "Item F." You can look this over with me.

[The information referred to follows:]

F

DATE DOCUMENT PREPARED (Month, Day, Year)	U.S. DEPARTMENT OF LABOR Employment and Training Administration	2. OFFICE SYMBOL, DOCUMENT NO., AND FISCAL YEAR INITIATED
10-17-80	PROCUREMENT ACTION REQUEST	TYCR FY 1981

3. TO:	4. FROM:
Office of National Programs Procurement Action Request Control Unit	Office of Youth Programs Division of Program Review and Analysis

5. REQUIREMENT (Identify the procurement action by specific program and project title.) SOLE SOURCE JUSTIFICATION MUST BE APPROVED AND ATTACHED (See DLMS 2, Section 830)

6. TYPE OF ACTION	7. NAME OF PROGRAM OFFICIAL TO BE CONTACTED AND TELEPHONE NUMBER
[X] New Procurement [ ] Modification to Contract/Grant No.	Bob DeBernardis

8. NAME OF CONTRACTOR/GRANTEE	9. NUMBER OF ENROLLMENT OPPORTUNITIES	10. INDICATE ACTION OFFICE	
		National Office	REGION
National Alliance of Business Washington, D.C.	3100	X	

11. DESCRIPTION OF PROJECT

The objective of this contract is to conduct administrative activities as part of a multi-jurisdiction test of alternative approaches for operating vocational exploration programs. More specifically, the Vocational Exploration Demonstration Project II is built upon experience from the first year of operations and is structured to facilitate assessment of implementing various program approaches incorporating benchmarking, standard core curriculum, and targeting by demographics and needs and competencies.

12. ENTER DOLLAR AMOUNTS →	Total dollar estimate deemed necessary $ 9,200,000

13. TYPE NAME AND SIGNATURE (Initiating Program Official)	14. TYPE NAME AND SIGNATURE (Program Administrator)
Janice Mapp	Timothy Barnicle
15. PROGRAM ACTIVITY (Specify) Vocational Exploration Demonstration Project II	16. FUNDING SOURCE (Program requirement by Act, Title, Section) CETA Title IV, Part A, Subpart 3 YETP

17. IS PROGRAM/PROJECT INCLUDED IN ASSISTANT SECRETARY FOR EMPLOYMENT & TRAINING APPROVED PROJECT PLAN?
(X) YES ( ) NO (IF "YES" ENTER PROJECT AMOUNT) $ 9,200,000

18. PROCUREMENT ACTION REQUEST CONTROL UNIT USE ONLY →	FISCAL YEAR OF FUNDS	DOLLARS CURRENTLY AVAILABLE IN PROGRAM ACCOUNT
→ 2074-M-(YETP)-7		$

FINAL PROGRAM APPROVAL AND COMMITMENT OF FUNDS

19. ON BEHALF OF ASSISTANT SECRETARY FOR EMPLOYMENT & TRAINING (Administrator, ONP's signature)	DATE (Mo., Day, Yr.)
W. C. Charles Bishop	10/21/80

(Formerly MA 3-81) ETA 3-81 Rev. Aug. 1977

The CHAIRMAN. This description says, "The objective of this contract is to conduct administrative activities as part of a multi-jurisdiction test of alternative approaches for operating vocational exploration programs. More specifically, the vocational exploration demonstration project 2 is built upon experience in the first year of operations and is structured to facilitate assessment of implementing various program approaches incorporating benchmarking, standard core curriculum, and targeting by demographics, and needs, and competencies." Is this kind of what you have been speaking about? Is this one illustration?

Mr. KACVINSKY. That is a lot of words. I would almost need Webster's Dictionary to help me out with that.

However, the vocational exploration program that has been run over the years has been a successful program that I would say was one that we would want to continue if we had the opportunity.

These are taking youths who are in their later years of high school and giving them the opportunity of visiting various firms within their community to see the types of occupation, not only just to go in and see what a toolmaker is doing but also to go in and see what an accountant is doing in the plant—to get a feel of the all-around type of occupation.

I think this is something that was started some time ago and was continued under the youth program, and it is one that I highly recommend.

The CHAIRMAN. So you would think this was a good one, in spite of all the words?

Mr. KACVINSKY. Yes, sir.

The CHAIRMAN. Okay. But you are indicating that there were others that were not so good and really were a waste of taxpayers' money?

Mr. KACVINSKY. Yes, Mr. Chairman.

The CHAIRMAN. Mr. Kacvinsky, as Deputy Administrator to Lamond Godwin, you were asked to approve many matters that did not meet your approval or, for that matter, the general approval of your peers and subordinates. Is that correct?

Mr. KACVINSKY. Yes, sir.

The CHAIRMAN. In the final weeks of the last administration, you went on a business trip out of the country. Is that correct?

Mr. KACVINSKY. I went on a Government trip, sir, to Israel.

The CHAIRMAN. I see. Did you plan this trip so that you could be away and others would have to authorize your last-minute telegrams and contracts?

Mr. KACVINSKY. I do not think I can take credit for that kind of a move. There are those who have come up to me and said, "That was the smartest thing you have done in a long time." [Laughter.]

But really, sir, no. The Department of Labor entered into an agreement with the Israeli Ministry of Labor wherein various teams were to go from the Department of Labor and also individuals from private industry, to go on various missions into Israel and take a look at their various training, the types of occupations, and the methods of training that they had.

I was charged with the responsibility of taking a team of private sector individuals to Israel, and we evaluated the on-the-job training that they had in the private sector in Israel.

The CHAIRMAN. So you did not plan this trip to be out of the country?

Mr. KACVINSKY. No; that was planned some time ago. In fact, we were to go in October; and then because the State of Israel asked that it be postponed, we did not go until January.

The CHAIRMAN. I see. Did your superiors know about this trip?

Mr. KACVINSKY. Yes, sir. In fact, they assigned me to it.

The CHAIRMAN. When did you return?

Mr. KACVINSKY. The day before Inauguration Day I returned to my office.

The CHAIRMAN. Did you meet with Mr. Green or Mr. Godwin at that time?

Mr. KACVINSKY. I met with Mr. Godwin. I met with Mr. Godwin after I had met with my staff when I returned from Israel and I returned to my office. My staff came in and were telling me the activities that were going on during the time that I was away—during those 3 weeks. I was alerted to the fact that there might be an overcommitment of funds here and that there were contracts and also telegrams were being signed during the last days. They brought all of this to my attention.

When Mr. Godwin, who was then my administrator, came in, I had a chat with him. We spoke about the trip—how the trip was—and I then informed Mr. Godwin that I had no intention of signing any contracts or grants.

He had told me that there were grants and contracts to be signed, but I told him that, given what I had just heard from the staff, I was not going to sign any. Mr. Godwin did say that he appreciated my position and that he would not require me to sign them.

The CHAIRMAN. When you got back, did you meet for the first time with Ms. Alexis Herman?

Mr. KACVINSKY. I did not meet with Ms. Alexis Herman. When I left Mr. Godwin's office, I went to my office and I gave staff specific information that I did not want to be bothered by anyone except staff—no outsiders.

I understand that my office was being used during the last few days by Assistant Secretary Green and by Alexis Herman as their base for operations in the Office of National Programs.

When I returned and I was in my office, while I was behind the desk, Ms. Herman walked into the office and seemed kind of surprised that I was there. She said, "Who are you?" and I said, "I'm Mr. Kacvinsky." She said, "Oh, we didn't expect you back so soon."

The CHAIRMAN. I see. How did the rest of that particular day go?

Mr. KACVINSKY. Well, I was notified by staff that during the afternoon the staff was having a farewell party for Mr. Godwin, and they wondered if I would come out and say a few words for the staff because Mr. Godwin would be gone by that time. During the course of that time when they had the party and when I did say a few words for the staff, Assistant Secretary Green at that time also gave Mr. Godwin an award.

The CHAIRMAN. I see. Did you observe the signing of contracts in Mr. Godwin's office during the day?

Mr. KACVINSKY. No, sir, because I stayed away as much as possible. However, I did hear that there were some documents being signed.

The CHAIRMAN. As I understand it, many contractors were there throughout the day. Is that correct?

Mr. KACVINSKY. There were a lot of individuals, outside individuals in the outer lobby of the offices, yes.

The CHAIRMAN. Well, is it true as some say that Mr. Green, Mr. Godwin, and Ms. Herman had contractors waiting in line to present their contracts for signature at that time?

Mr. KACVINSKY. There was a lot of talk to that effect from the staff, yes.

The CHAIRMAN. I have been advised that in addition to signed contracts, these individuals were also given autographed photographs. Is that correct?

Mr. KACVINSKY. Yes, they were giving them to the staff.

The CHAIRMAN. Have you observed changes in the program since January 20—that was the date of the inauguration—1981?

Mr. KACVINSKY. Mr. Chairman, I came back in Tuesday and I met with my special assistant, Steve Puterbaugh, I said to Steve, "There have been some serious allegations made here of overcommitment. I understand projects were signed that were not in our funding plan for 1981." I said, "We must immediately get with our contracting staff, and gather together everything that has been done."

I immediately notified our contracting office to cease any further telegrams, any further letters, or any further contract signing. I had Steve and the staff here work with me in pulling together everything that had been done. Mr. Puterbaugh identified the overcommitment and with this information I then went up to the Acting Deputy Assistant Secretary at that time, Mr. Lawrence Weatherford.

I made him aware of what we were doing. I told him that I had put a freeze on all signing of documents. I recommended that he follow suit in this matter, and that we do a thorough check of everything that had been done over the past month or 6 weeks so that we could get ourselves in a position where we were better able to answer questions to the new Secretary.

The CHAIRMAN. Have Mr. Angrisani and the other new members of the administration been cooperative with you in trying to accomplish the savings that you are talking about?

Mr. KACVINSKY. Yes, sir, absolutely.

The CHAIRMAN. Are you pleased with the current changes? Do you feel that they have placed the emphasis where the emphasis belongs?

Mr. KACVINSKY. Absolutely. In fact, Mr. Angrisani delegated the authority to my office, this task force that he talked about where we are setting up the new contractual procedures. I have a gentleman from my office who is heading that task force and has a staff of people, and they have been working and we have been working closely with Mr. Angrisani and other officials in ETA in getting this done.

To say that this is something new, it is not something new. It is something that we should have been doing. It is something that we

should have been following. We have Department of Labor regulations on contracting, just like any other agency. However, over the years there are always shortcuts that you take or other means of doing a procurement action.

They are not illegal. For example, you have heard a lot about the fact that we did a lot of sole-source, that GAO said we do sole-source. We have those programs that have been carried over that are of demonstrated effectiveness. These programs have done the job.

When we come up with our funding plan for the year, we include these programs into our funding plan. We submit them to a sole-source board that we have in the Department of Labor and they in turn give us the OK to continue with these contracts. Anything that was not in the plan had to go sole-source or was supposed to go sole-source.

The CHAIRMAN. Were some if not all of these think-tanks, consultants, and others who you have indicated may have profited from the CETA program at the expense of young people or the aged getting jobs, perhaps taking a great share of CETA funds—are you happy that they have been cut off? Have they been cut off?

Mr. KACVINSKY. Sir, you do not like to be happy about anything. I feel that there is a place for everything.

The CHAIRMAN. How do you feel about that?

Mr. KACVINSKY. I feel that those programs, had we been given enough funds, could have been done in other areas but not in the Office of National Programs. I think in our demonstration programs they might have been better utilized.

The CHAIRMAN. I suppose you are not only referring to these middlemen and think-tanks and others, but the travel, lunches, dinners, hotel rooms, and all of the expenses spent in so-called training of the disadvantaged might have been best used on direct training those who could have used it best?

Mr. KACVINSKY. Direct services, that is right. I still feel that direct services, dealing with people, is the best way of training.

The CHAIRMAN. Well, then, do you believe that the current administration under Mr. Angrisani, despite the criticism it has received, has in reality forced a change in the program back to the original intent of the program?

Mr. KACVINSKY. Yes, sir. We are going back to dealing with the private sector and providing direct services.

The CHAIRMAN. I take it that there is still room for growth there, though——

Mr. KACVINSKY. Oh, yes.

The CHAIRMAN [continuing]. And that we still have to continually watch and do everything we can to make sure that these changes are all right.

Mr. KACVINSKY. Mr. Chairman, we can set up the best policy, we can set up the best guidelines we can. There is no guarantee that anybody coming in 2, 3, 4, 5 years from now will not go around those policies for their own purposes, for political purposes. Again, they are not something that you would do—they are not illegal. However, ethical, you have to question that.

The CHAIRMAN. Senator Kennedy, do you have any questions?

Senator KENNEDY. Are you going to question all of them?

The CHAIRMAN. If you would like, I could go through all of them but my questions were a little longer than I intended them to be so we might want to go individually.

Senator KENNEDY. When you are finished with the panel, that will be fine.

The CHAIRMAN. Mr. Puterbaugh—am I pronouncing that right, Mr. Puterbaugh?

Mr. PUTERBAUGH. Yes, sir, close enough.

The CHAIRMAN. In your position as an administrative assistant, it is my understanding that you met with the Steering Committee on a regular basis and proposed contracts and/or grants were actually discussed. Is that correct?

Mr. PUTERBAUGH. That is correct, sir.

The CHAIRMAN. Now it is my understanding that you met with the Steering Committee for a period of time but in the end the Steering Committee really did not function as a committee. Am I correct on that?

Mr. PUTERBAUGH. That is also correct, sir.

The CHAIRMAN. Why is that so?

Mr. PUTERBAUGH. I cannot answer that question. I do not know the answer.

The CHAIRMAN. Well, I understand you told our staff that Mr. Green became the steering committee, in essence, and most of the decisions were his. Is that right?

Mr. PUTERBAUGH. Yes, sir. I can say that—well, to go back a few steps, the committee as you know consisted of four members.

The CHAIRMAN. Yes.

Mr. PUTERBAUGH. They met regularly from September of 1979 right through to October of 1980. Now it so happens that the last decisionmaking meetings concerning the CETA title III funding plan occurred in mid- and late November, and those were not attended by the full membership of the committee. I believe the second to the last meeting was attended by only two official members of the committee, Mr. Green and Mr. Knapp, and the last decisionmaking session which took place in the last week of November was attended by only one member of the committee, Mr. Green.

The CHAIRMAN. I think you said to my staff at one time, or to the committee staff, "I was in charge of running the meeting to the extent that I gave brief instructions on proposed awards," and you recalled, "I recall one instance after I had given statements on 12 or 13 or 20 proposals, I realized that we were then out of funds." Is that correct?

Mr. PUTERBAUGH. That is correct.

The CHAIRMAN. You then said, "I then stated to Assistant Secretary Green, 'That's it. We are out of money.' Green, however, ignored me and kept on approving funds." Is that correct?

Mr. PUTERBAUGH. That is essentially correct.

The CHAIRMAN. In the Washington Post article of March 9, 1981 former Assistant Secretary Green stated, and I quote, "All the approvals were for projects that had been previously OK'd, at least in concept, by a special departmental committee" consisting of himself and several other aides to then-Secretary Ray Marshall. "Moreover," he said, "there was full documentation to justify all

approvals, and if current officials say it was lacking in various places 'then they tore up the justification.' "

Now in view of Mr. Green's comments, Mr. Puterbaugh, do you agree with his statement, No. 1, that "all approvals were for projects that had been previously OK'd"?

Mr. PUTERBAUGH. No, I could not agree with that.

The CHAIRMAN. No. 2, that "there was full documentation to justify all approvals"?

Mr. PUTERBAUGH. I could neither disagree nor agree with that. I was not aware of all of the——

The CHAIRMAN. You do not know that one?

Mr. PUTERBAUGH. I do not know.

The CHAIRMAN. OK. No. 3, "if it was lacking in various places 'then they tore up the justification,' " would you agree with that?

Mr. PUTERBAUGH. Well, I can only offer my opinion that I think it would be very unlikely that staff in the Labor Department would destroy documents of that nature.

The CHAIRMAN. It is also my understanding that after the election of President Reagan, that you were aware that former Assistant Secretary Green sent out a memo to all personnel that he was personally taking over the funding process. Is that correct?

Mr. PUTERBAUGH. That is correct, sir.

The CHAIRMAN. Mr. Green indicated his concern over the large amount of new funding that was to be handled, and he decided by December 1980 that he would also control the Steering Committee. Is that also correct?

Mr. PUTERBAUGH. I do not know the answer to that question.

The CHAIRMAN. OK. Now it is my understanding that you told my staff that he sent his special assistant, Arlene Gilliam, to put pressure on the movement of certain contracts, and kept a running balance sheet reflecting uncommitted balances of those funds available for allocation. Is that correct?

Mr. PUTERBAUGH. Well, sir, with respect to Ms. Gilliam, she did appear over in our offices to track the progress that was being made on a number of contracts which were of special concern to Mr. Green at the time. As far as the running balances are concerned, I think that has to do with a different area.

The CHAIRMAN. I see. Now you also told committee staff that documentation became nonexistent, and contrary to Mr. Green's statement, you say: "I am not aware of any justifications being 'torn up' because I am not aware of any justifications." Is that correct?

Mr. PUTERBAUGH. Could you repeat that question, Mr. Chairman?

The CHAIRMAN. Yes. As I understand it, you indicated that documentation became nonexistent at this time, and contrary to Mr. Green's statement, quoting you, "I am not aware of any justifications being 'torn up' because I am not aware of any justifications" for those contracts.

Mr. PUTERBAUGH. Yes. I would stand by that statement, and I would like to say that there were some instances where projects had been approved where I had no personal knowledge of extensive written justifications and explanations for the projects being approved. I cannot say with absolute certainty that that type of

material did not exist at all. Perhaps it was in the hands of other Labor Department employees.

The CHAIRMAN. However, you do not know of any existence of it?

Mr. PUTERBAUGH. No, sir.

The CHAIRMAN. Could you tell us in your opinion, Mr. Puterbaugh, could you describe for us what is meant by a "sole-source contract"?

Mr. PUTERBAUGH. Yes, sir. That refers to a contract that is awarded without competition, that is, a contract that is awarded by the Labor Department without examining whether more than one firm can do the work successfully.

The CHAIRMAN. All right. Thank you.

Ms. Maith, perhaps I could turn to you. With regard to a contract for $150,000 to the National Association of Southern Poor, did you review a proposal for this project submitted by the association?

Ms. MAITH. I did.

The CHAIRMAN. Did you find that proposal totally satisfactory?

Ms. MAITH. Yes, I did.

The CHAIRMAN. You did? My staff tells me that you told them, "No, I had to contact the contractor to attempt to shape up the proposal." Is that correct? Did you tell them that?

Ms. MAITH. That was with regards to the budget.

The CHAIRMAN. I see.

Ms. MAITH. It was not with regards to the narrative part of the proposal.

The CHAIRMAN. Could you tell the committee of your contact with the contractor's project officer, Mr. Anderson, and how you were informed that the contract should be approved?

Ms. MAITH. The proposal was submitted and the initial proposal budget was in the amount of $300,000. After we learned that the $300,000 was not included in the funding plan for fiscal year 1981, I contacted Mr. Anderson to inform him that those funds were not available. After contacting Mr. Anderson, he in turn called Mr. Green and informed him that I had called to inform him that the funds were not available. Mr. Anderson called me back and informed me that he had been in contact with Mr. Green's office and he was told that $150,000 could be made available to him.

The CHAIRMAN. I see. Did anyone from the Secretary's office call you to verify what the contractor, the National Association of Southern Poor, actually said?

Ms. MAITH. No. As a Federal representative, I do not have direct communications with the Assistant Secretary nor the Administrator.

The CHAIRMAN. Therefore, you were going primarily or solely on the grantee or the contractor's word, is that correct, at that point?

Ms. MAITH. No. After I received the information from the contractor I went to my supervisor, Mr. Alegria, and informed him of the information that Mr. Anderson had conveyed.

The CHAIRMAN. Your supervisor was Mr. Alegria. Is that correct?

Ms. MAITH. Alegria.

The CHAIRMAN. Alegria. I am sorry. As I understand it you told your immediate supervisor, Mr. Alegria, that the contractor was in effect authorizing his own—what was it?—$150,000 contract.

Ms. MAITH. I am sorry. Would you please repeat your question?

The CHAIRMAN. As I understand it you told your immediate supervisor, Mr. Alegria, that the contractor was in effect authorizing his own $150,000 contract. Is that correct?

Ms. MAITH. No, I did not say that.

The CHAIRMAN. You did not? Did Mr. Alegria relieve you of this dilemma by giving you permission to work up the PAR?

Ms. MAITH. No. Mr. Anderson came in and he met with Mr. Alegria and he met with me. We had a joint meeting, and after the meeting there was no immediate decision made as to whether or not the $150,000 PAR—procurement action request—would be made up. However, later I was informed to develop the $150,000 PAR, and I did.

The CHAIRMAN. I see. As I understood it, you told our staff that Mr. Alegria said basically that if Mr. Green wants them to have it, to work up the paperwork and then submit it to him. Is that correct?

Ms. MAITH. That is not correct.

The CHAIRMAN. That is not correct? OK.

Mr. Alegria, did Mr. Green or Mr. Anderson call you at any time soon after this occurred to tell you what the deal was?

Mr. ALEGRIA. No, sir.

The CHAIRMAN. What course of action did you decide upon at that time?

Mr. ALEGRIA. Let me say that there was a lot of confusion at that point in terms of what was approved and what was not approved. Therefore, what we decided to do—I think I had a discussion with Steve Puterbaugh—we decided that what we would do is, we would make up the paperwork for the Association of the Southern Poor.

The CHAIRMAN. Who made up the paperwork?

Mr. ALEGRIA. Marge, Marge Maith. I asked her to go ahead and make it up.

The CHAIRMAN. Therefore, you asked Ms. Maith to make up the PAR then?

Mr. ALEGRIA. In other words, make up the paperwork, unsigned, of course. I in turn gave it to Steve Puterbaugh, who collected all of these pieces of paper, and then he would have it reviewed through some kind of a system, and if Mr. Green wanted it approved he would sign it. In other words, all he had at that point was just an unsigned piece of paper.

In other words, the statement that you made, what Marge said, in essence that is really what happened. She prepared the paperwork at my request and I turned it over to Steve, who handled the unsigned PAR's. Then at some point he would meet either with Mr. Green or Arlene Gilliam or somebody, and if in fact the Assistant Secretary had approved such an award, he would of course sign it. If not, he obviously would not sign it. It is just like a check. A Secretary prepares a check, but if it is unsigned, it is not worth the piece of paper it is written on.

The CHAIRMAN. Thank you, Mr. Alegria.

Mr. Slobig, could you tell the committee how you came to be the program representative for Dr. Penick's contract proposal?

Mr. SLOBIG. Yes. I was not the program representative for Dr. Penick. I was and continue to be the chief of the program review unit in the Office of Community Youth Employment Programs.

The CHAIRMAN. I see.

Mr. SLOBIG. A staff person who works for me had for some time been assigned responsibility for being the Federal representative on a set of projects that we funded in cooperation with the Women's Bureau, generally referred to as the solo parent demonstration projects. It was in the context of that set of demonstration projects that the Benson Penick situation arose. Ms. Ross, who was the Federal representative on the particular project, did not happen to be available at the time the situation with Dr. Penick ensued, and therefore I as her supervisor assumed responsibility for dealing with it.

The CHAIRMAN. Was Alexis Herman there at the Women's Bureau at that time?

Mr. SLOBIG. Alexis Herman was the Director of the Women's Bureau at that time. Yes, she was.

The CHAIRMAN. I see. Why wasn't this funded through that office?

Mr. SLOBIG. It was never funded through that office. To the extent that it was ever funded—and it was really never funded in a formal grant award process—money was ultimately given to Dr. Penick just in terms of settlement, an after-the-fact settlement based on a telegram that he had received authorizing him to incur costs.

The CHAIRMAN. As I understand it, you recommended against funding this award based on certain shortcomings which you defined as, No. 1, work statement failed to present an understandable and defensible approach, and, No. 2, the objectives were a mishmash of evaluation. You actually described the program in terms much more blunt than that on one occasion. Is that correct?

Mr. SLOBIG. That is correct.

The CHAIRMAN. On Friday, January 16, 1981 you attended a meeting with other program people and Dr. Penick to attempt to resolve the deficiencies. Is that correct?

Mr. SLOBIG. That is correct.

The CHAIRMAN. Who was present at that meeting, and could you tell us who defended the funding of this contract?

Mr. SLOBIG. Well, there were two or three different meetings that ensued over the course of a couple of days. I am not quite sure of the chronology of meetings and who attended what meeting, so I may not be able to reconstruct exactly who was present at the particular meeting to which you made reference.

Generally, over the course of time that this was an issue that we were attempting to resolve, Ms. Herman was involved; Dorothy Wigglesworth, a staff person from the Women's Bureau who was the project officer within the Women's Bureau for this set of demonstration projects, was involved; Jim McConnell, who was the Special Assistant to the Director of the Office of Community Youth Employment Programs, was involved; Sanford Cohn, who was the Director of the Office of Contract Services in Mr. Kacvinsky's organization, was involved; I was involved; Mr. Penick was involved; and there may have been others I cannot recall.

The CHAIRMAN. Without objection, we will put exhibit number 6—which is a memorandum concerning the contractor, Dr. Benson A. Penick, on the project solo parents demonstration project at a cost of $175,000—in the record at this point.

[The information referred to follows:]

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87-811 O—82——10

6

CONTRACTOR: Dr. Benson E. Penick

PROJECT: Solo Parents Demonstration Project

COST: $175,000

BACKGROUND STATEMENT OF WORK: On Friday, January 16, a meeting attended by Frank Slobig, Jim McConnell, Alexis Herman and Dr. Penick was convened at the request of Sandy Cohn of ONP's contract shop to review the statement of work for a proposed contract with Dr. Penick to do work on the Women's Bureau Solo Parent projects. At that time, a multitude of questions surrounding this venture were raised. Subsequent revisions failed to clarify the intent. It is far from clear what the contractor really proposes to do. The little documentation we have suggests a mishmesh of evaluation, technical assistance and direct provision of services.

STATUS: A package consisting of the documents listed below is on hand at OYP: (1) a PAR signed and dated 12/4/80 for $175,790, (2) incomplete and unsigned sole source justification papers, (3) an unclear statement of work, (4) a 1/19 memo from Hugh Davies to Janice Mapp detailing numerous deficiencies in the statement of work; also, a TWX was forwarded on 1/19/81 authorizing costs not to exceed $20,000.

RECOMMENDATION: The statement of work fails to present a sufficiently understandable and defensible approach that would warrant funding. In light of the questions that have been raised, this effort should be terminated at the convenience of the government.

Mr. SLOBIG. Yes, I have that before me.

The CHAIRMAN. You have that before you.

Now who defended the funding of that particular contract? Do you remember?

Mr. SLOBIG. The funding was being defended by Ms. Alexis Herman and to some extent by Dorothy Wigglesworth of the Women's Bureau staff.

The CHAIRMAN. How did that meeting come about, that particular meeting?

Mr. SLOBIG. To the best of my recollection, I was requested through Mr. McConnell to go to the Office of National Programs to sit in on a meeting to attempt to resolve what at that point in time appeared to be an impasse regarding the approval for funding for Dr. Benson Penick, and so I did.

The CHAIRMAN. I understand Dr. Penick just suddenly showed up outside the door at this meeting.

Mr. SLOBIG. Well, I had never had any contact with Dr. Penick until one of those days right near the——

The CHAIRMAN. When he just showed up.

Mr. SLOBIG. Well, Dr. Penick was obviously an interested party. Dr. Penick apparently had had discussions and conversations with staff in the Women's Bureau relative to his role in this set of projects. Apparently he had had a previous relationship on another set of demonstration projects that the Women's Bureau was involved in. However, I had never had any personal contact with Dr. Penick before this incident.

The CHAIRMAN. I see. As a result of this particular meeting, were you satisfied as the program representative responsible, that questions raised had been resolved satisfactorily to go ahead and fund?

Mr. SLOBIG. As the Chief of the Program Review Unit, I was not satisfied, and so indicated.

The CHAIRMAN. Was this contract in fact funded?

Mr. SLOBIG. To my knowledge a contract was never awarded to Dr. Penick. A telegram was sent out to Dr. Penick authorizing him to incur costs.

The CHAIRMAN. That was the $20,000 that was mentioned earlier in the day?

Mr. SLOBIG. That is correct.

The CHAIRMAN. I see. Are you saying you do not know whether the full contract was ever fully awarded?

Mr. SLOBIG. I know in fact that it was not. I mean, there subsequently was a settlement with Dr. Penick for costs incurred, costs the justification for which was never discussed within our organization, and yet a settlement was made by appropriate staff in the Office of National Programs, apparently, for an amount in excess of the $20,000.

The CHAIRMAN. How much was that amount, approximately?

Mr. SLOBIG. It is in that GAO report. I cannot remember what it was. I think it was $27,000.

Mr. KACVINSKY. Mr. Chairman, that was $7,950 more.

The CHAIRMAN. That was $7,950 more on top of the $20,000?

Mr. KACVINSKY. Yes.

The CHAIRMAN. Did the Department get anything for the work that had been done? Was there any completed work at all?

Mr. SLOBIG. I had no subsequent involvement with the situation beyond those last days of January.

The CHAIRMAN. Do you know, Mr. Kacvinsky?

Mr. KACVINSKY. No, Mr. Chairman. This was one of the programs that we did an indepth study with Assistant Secretary Angrisani and at the time we felt that they did not meet the plan that was set out for the youth program at that time. Therefore, a termination for the convenience of the Government was sent to Dr. Penick on March 2, 1981 telling him that his program would be terminated and that a settlement would be negotiated with him.

The CHAIRMAN. OK. Mr. Aaron——

Mr. SLOBIG. May I make one comment, Senator?

The CHAIRMAN. Sure.

Mr. SLOBIG. It just seems to me that it is important that the committee understands something. I feel somewhat at a disadvantage, being the only representative from the Office of Youth Programs who happens to be here, and yet I will hazard to at least speak my own mind. I cannot necessarily speak for the office but I think it is important to understand——

The CHAIRMAN. I might add Ms. Barnett was supposed to be here but——

Mr. SLOBIG. Ms. Barnett was on an Intergovernmental Personnel Act assignment to our office and her assignment ended last Friday.

The CHAIRMAN. I see. That is probably why she is not here.

Mr. SLOBIG. The only comment that I would like to make is simply that the Penick situation, as far as I am concerned, was an aberration. It was not representative. It is one of a lot of contracts and grants awarded with Office of Youth Program title IV moneys over the last 4 years.

The CHAIRMAN. I would suggest that you may spend some time on the GAO report and all the statistics, evaluations, and recommendations they made. Be that as it may, do that and then let us know where you disagree with the GAO report. We are as interested in that as we are in finding out just what is wrong over there at the Department. If the GAO was wrong, I want to show they are wrong. Therefore, we will leave the record open, and anything you would care to refute that the GAO has stated here today or in their reports that have been filed with the committee, we will be happy to place that in the record.

Mr. SLOBIG. Thank you very much.

The CHAIRMAN. We will keep that record open for you.

Mr. Aaron, approximately when were you notified to negotiate the PUSH contract or the PUSH grant?

Mr. AARON. I think it was some time early in December.

The CHAIRMAN. Of 1980?

Mr. AARON. Of 1980.

The CHAIRMAN. Now as I understand it, Mr. Godwin was the person who gave the direction for your office to become responsible for that project, which was formerly in the Office of Youth Programs. Is that correct?

Mr. AARON. That is correct, Mr. Chairman.

The CHAIRMAN. As I understand it, the reason you were given for the Office of Youth Programs not handling this particular negotia-

tion, is that Mr. Godwin advised you that title IV funds were unavailable. Is that correct?

Mr. AARON. Could you repeat——

The CHAIRMAN. The reason——

Mr. AARON. This was, in fact, funded under title IV. Do you mean title III?

The CHAIRMAN. My point is that the reason given to you by Mr. Godwin, why the Office of Youth Programs did not handle the negotiations for this, as I understand it, was that title IV funds were unavailable. They did not have any more title IV funds.

Mr. AARON. I do not think that is correct, Mr. Chairman.

The CHAIRMAN. I see. What were your instructions from Mr. Godwin as to what you were to do with the negotiations?

Mr. AARON. I believe, Mr. Chairman, that I received those instructions from Mr. Alegria, who was the office director.

The CHAIRMAN. Mr. Alegria? OK. You were told you were going to negotiate a 2-year, $2 million contract or grant?

Mr. AARON. That is essentially correct, Mr. Chairman, that those were the parameters.

The CHAIRMAN. Now as I understand it, you were aware or became aware shortly after this that the PUSH grant proposal had encountered opposition from the OYP office in its present form. Could you list for us what those questions were that were raised?

Mr. AARON. Mr. Chairman, I am not familiar with the total specifics in terms of the status of the program in the Office of Youth Programs.

The CHAIRMAN. I see. As I understand it, you told committee staff that OYP had serious questions regarding, one, the cost to do additional research that they, OYP, thought unnecessary; and, two, that the number of participants—that is, children to benefit—was considerably low, approximately 200 in the original proposal. Is that correct, and were you aware of those facts?

Mr. AARON. I believe that is substantially correct.

The CHAIRMAN. OK. Your office, as I understand it, attempted to negotiate with PUSH representatives to address these deficiencies. Could you tell the committee what improvements you were able to write into the grant?

Mr. AARON. Well, as the chairman may be familiar with the grant, the proposal consisted of two parts: One was a direct service portion and the second was for a PUSH for Excellence Institute which would be undertaking certain kinds of research and assistance to their program operations. The original proposal that came in, as you indicated, proposed to train about 230 kids, economically disadvantaged youth, over the period.

I worked with the representatives from PUSH to sort of restructure their approach. They had been looking at it in terms of a year's basis. We worked it down to a semester's basis for these children and we were able to bring it up to 1,000 children over the period of the grant.

Second, with regard to the Institute we had a number of discussions both with the PUSH officials and Mr. Alegria and myself in terms of what should be in that part of the grant. Mr. Alegria had some experience in the Youth Office and was able to give me some guidance.

Basically, the tact that we took was that there should be no original research because we felt that enough of that had been done under the Youth Act, and second, that for different portions of the activities of the Institute we would ask them to submit a plan which we could then review and approve all or part of it if it satisfied us.

The CHAIRMAN. Therefore, if I summarize what you said, you would cut out some research and increase the number of children participants.

Mr. AARON. That is correct.

The CHAIRMAN. OK.

Mr. AARON. We put in what we felt were safeguards in terms of allowing us to review their plans.

The CHAIRMAN. OK. Did you understand that this grant would be signed anyway?

Mr. AARON. I think I assumed that it would have—wait, that it would have been signed whether I were successful or not?

The CHAIRMAN. Well, once you made the changes. Yes, whether or not you were successful, whether or not you made the changes.

Mr. AARON. No; I do not think that I assumed that it would be signed, necessarily. As it happened, it did not get to that.

The CHAIRMAN. Committee staff tell me that what you did say is, "We just tried to shore up the Government's position as best as possible before processing the papers." Is that correct or incorrect?

Mr. AARON. Well, the situation in which you are told that you will negotiate a program makes you assume that—you can assume that there is some interest in the program, and that is the starting point. As it happened, we were successful in negotiating what we felt was a strengthening of the proposal and improvements in the proposal.

I guess I assumed that there was sufficient interest that it would be funded but it is never actually automatic. We did not get to the point where we had to dig our heels in.

The CHAIRMAN. I see. Did you dig your heels in on this particular grant?

Mr. AARON. At one point; yes.

The CHAIRMAN. However, in the final analysis——

Mr. AARON. In the final analysis I believe that we were successful in protecting the Government's interests.

The CHAIRMAN. I see. Mr. Aaron, what is the difference between a contract and a grant?

Mr. AARON. I could explain it to you but I would really rather not because it is sort of technical. [Laughter.]

It is technical, and I am not an expert. I am not a contracts expert.

The CHAIRMAN. Let me see if I can put it in layman's terms, and see if you agree: As I understand it, basically the Government can maintain some semblance of control over a contract. It can unilaterally cancel it. A grant is different. It is a different situation. It cannot be canceled unilaterally. You are aware of that?

Mr. AARON. Yes, I am, Mr. Chairman.

The CHAIRMAN. You are shaking your head?

Mr. KACVINSKY. Yes, that is very true.

Mr. AARON. I think, if I may, the underlying assumption as I have had some of our lawyers explain it to me is that in a contract situation the Government is asking for something which it may then decide it does not need, and in a grant situation an organization is saying, "We propose to do something with Government assistance," and that has something to do with whether it can be unilaterally terminated.

The CHAIRMAN. I see. Well, as I understand it, the Government has to enter into detailed negotiations and if unsuccessful, it has to leave it to the courts to decide if possible, if the two parties cannot agree. Is that right?

Mr. KACVINSKY. That is true.

The CHAIRMAN. What is the current status of the PUSH grant, if you know?

Mr. AARON. Well, the status of the PUSH grant has been referenced earlier. I will not repeat that, Mr. Chairman. To my knowledge, as a result of communications between this committee and the employment and training administration, we have now sent—I believe the date was October 7—we sent them a closeout package and we agreed to their assertion in their letter to you that they had terminated the program.

The CHAIRMAN. Now have they agreed with you that it is, in fact, terminated?

Mr. AARON. I have not heard anything to the contrary.

The CHAIRMAN. I see. Is it not true that the Labor Department had been negotiating since last spring to terminate this grant?

Mr. AARON. That is correct, Mr. Chairman.

The CHAIRMAN. Are there any other grants with which you had similar problems?

Mr. AARON. How do you mean?

The CHAIRMAN. During this period of time since——

Mr. AARON. Problems terminating?

The CHAIRMAN. Yes, since September of last year up until today.

Mr. AARON. The only other program that is in that status——

The CHAIRMAN. Let's limit it to Mr. Godwin's programs, so that we know. Limit it to Mr. Godwin's programs, programs he was working with.

Mr. AARON. Well, most of the programs which have been terminated were contracts and therefore they were just terminated. There were a few other grants, and I think they are all in the process of negotiation right now or will be at some future date.

The CHAIRMAN. I see. As I understand it, there is a similar problem existing in Cleveland, Ohio on a grant also funded by Mr. Godwin, where the grantee is the person who negotiated the PUSH grant, a Mr. Bustemante. Is that correct?

Mr. AARON. Mr. Bustemante did not negotiate the PUSH grant.

The CHAIRMAN. OK. Did he represent the person who did negotiate it?

Mr. AARON. He is PUSH's general counsel.

The CHAIRMAN. I see. Now what is that grant all about?

Mr. AARON. That is a private sector oriented program to train economically disadvantaged youth in a variety of occupations which occur in the financial or banking industry.

The CHAIRMAN. Was it subcontracted to any particular bank?

Mr. AARON. The First National Bank Association.

The CHAIRMAN. Is that Mr. Bustemante's bank.

Mr. AARON. He is associated with the bank, I know.

The CHAIRMAN. I see. What was the amount of that particular grant?

Mr. AARON. That grant was in the amount of $572,000, I believe.

The CHAIRMAN. I see. Now as I understand it, there has been a decision—you have indicated that—to terminate this grant as well. Is that correct?

Mr. AARON. They received the telegram as a result, I guess, of this process of balancing the books that Mr. Angrisani talked about, that we wish to negotiate termination of that program.

The CHAIRMAN. Do you know whether or not that program has in fact been terminated as of this date?

Mr. AARON. I know that it has not been terminated.

The CHAIRMAN. Has the grantee spent any of the original funds?

Mr. AARON. I am sure that they have. Yes, I have received reports indicating that they have.

The CHAIRMAN. Prior to this freeze on trips, have you made any trips to the site?

Mr. AARON. I have not been able to.

The CHAIRMAN. Now I suppose you agree with Senator Kennedy and me that it would be helpful to you if you can have onsite inspection of some of these grants——

Mr. AARON. Indeed it would, Mr. Chairman. I should say that we have scheduled trips to visit that program but have been unable to complete them.

The CHAIRMAN. Therefore, you plan on going to visit that program. Is that correct?

Mr. AARON. I certainly hope to.

The CHAIRMAN. OK.

Mr. AARON. I might say also that we do, as you would expect, receive written reports—in this case they have been rather voluminous—indicating that the program is meeting with some success, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Aaron. We will await such time as we can locate Ms. Barnett and have her respond to the questions that we have for her to answer.

Therefore, we will move to you, Ms. Crucil. Ms. Crucil, according to our staff review of the grant files, you were assigned the contract supervision of the Southern Vocational College in 1979. Is that correct?

Ms. CRUCIL. Yes, sir. I think it was 1979. I keep wanting to say 1978 but it is in that period.

The CHAIRMAN. Therefore, that would be approximately February 1979. Would that be pretty close to when it would be?

Ms. CRUCIL. Yes. I think I took it over, actually, about September/October 1978.

The CHAIRMAN. I see. Therefore, it might have been a little bit before 1979.

When you assumed responsibility for that file, did you undertake any reviews to prepare yourself to be able to handle that file?

Ms. CRUCIL. First of all, I did not negotiate the grant——

The CHAIRMAN. I understand.

Ms. CRUCIL [continuing]. And I had a problem with it from the beginning. I believe it was in February 1979, somewhere in early February, that I did do an onsite review. At that time, because of my concerns with the fiscal management, just based on the letter of credit drawdowns and the reports and so on, I decided I had better take a heavyweight in the way of a fiscal officer with me, which I did.

The CHAIRMAN. I see. At about January or February 1979, did you get a telephone call from the FBI?

Ms. CRUCIL. Yes. One day I got a call from the State licensing bureau in Alabama saying that they had some concerns, and they did not really want to give a permanent license to this organization until they were satisfied that these rumors they were hearing were not true.

The following day, the FBI from Montgomery did call me and said that they were concerned. They had heard these stories but because the Departments of Labor, Veterans Administration, the now-HHS—there were several Federal agencies being talked about—that they really wanted something done.

At that time I told them that I could not take any action unless I had a piece of paper, and would they please just send the letter—which they did—and at that time we would turn it over to our OIG, Office of Inspector General.

Somewhere in that time frame, because of the fiscal report that my counterpart had written, I asked if we could have a comprehensive audit. I knew that the HEW, then-HEW, in Atlanta had frozen their funds because they had gone in and in the space of a couple of hours decided that there was some impropriety.

The CHAIRMAN. Could you describe the impropriety?

Ms. CRUCIL. Well, we surfaced such things as whited-out signatures on invoices, double signatures on checks, and there was a person—I recall one, I believe, had a pharmacy and that man was on the board of directors, and it seemed like that was a conflict. There were several things like this: Dates on invoices whited out and new dates substituted. There were just a lot of things that had us concerned.

The CHAIRMAN. I understand there was even what you considered to be nepotism in hiring practices.

Ms. CRUCIL. That is right.

The CHAIRMAN. You considered that as a representative of the Department of Labor, I take it?

Ms. CRUCIL. Pardon?

The CHAIRMAN. You considered that to be wrong?

Ms. CRUCIL. Well, it was a husband, wife, and son that were running this whole thing.

The CHAIRMAN. I see. When you returned to Washington, did you and Mr. Rensbarger—who was the member of the Office of Inspector General who accompanied you, as I understand it—did you and Mr. Rensbarger submit reports? Did you receive any other updates?

Ms. CRUCIL. Well, right about that time I got a call from—there are two sections in the OIG. There is the investigative and the audit section. I got a call from the investigative section saying, "I want to see this report as soon as it comes in". I subsequently found out that the FBI had also called them, so that they received

every single piece of paper from us which was subsequently sent to Atlanta to the fieldman down there, so that when the comprehensive audit took place he would have all the materials.

The CHAIRMAN. Without objection, then, we will put exhibits 8 (a), (b), (c), and (d) into the record at this point. We will also put in a letter from the U.S. Department of Justice dated March 14, 1979, regarding the Southern Vocational Community College, Tuskegee, Ala., migrant seasonal workers program, into the record at this point as well. We will also put an April 6, 1979, letter to Reverend Haygood, from the State of Alabama Department of Education, into the record at this point, without objection.

[The information referred to follows:]

Q 0 8 1/20/77

Harry: re: Southern Voc Com College
Tuskegee, Ala.

I had a call today from Bob Hauser, DOL, Montgomery, Ala. He said he had heard some allegations, but like the Ala State Board of Educ, they were general. However, since the Veterans Admin, HEW & DOL had all be named in the allegations, he were preparing a letter for all the agencies to alert them.

He has asked for a copy of the grant, the regs, which I will send him. He asked for names and addresses of all current and former enrollees. I told him that I would appreciate the latter request in writing & he had no problem with that.

I explained DeMarco's visit & said if information warranted, the matter would be turned over to him for appropriate action. Gave him your name for contact.

Rene

MAR 29 1979

MEMORANDUM FOR: LINDSAY L. CAMPBELL

FROM: GERALD W. PETERSON
Audit Division - Acting Chief

SUBJECT: Fiscal Assessment of Southern Vocational Community College, Tuskegee, Alabama

Mr. John Rensbarger of OIG - Audit Division accompanied Ms Renee Crucil, ETA-ONP to the Southern Vocational Community College in Tuskegee, Alabama on March 19 through 21. The purpose of Mr. Rensbarger's visit was to assess the fiscal integrity of the CETA Title III, Section 303, Economic Stimulus Program. Federal Management Circular 73-6 established HEW as the cognizant audit agency for all colleges and universities. Therefore, our assessment had to be limited to an overview of the financial system as it pertained to the management of DOL funds. The fiscal assessment was limited to those financial practices and procedures currently in effect and did not encompass any compliance aspects.

The fiscal management system at Southern Vocational Community College is extremely poor and cannot properly administer the DOL funding. It is our opinion that management has deliberately disregarded good fiscal practices. The following problems were noted.

1. SVCC has no written accounting procedures manual. Mr. Harvey L. Smith, CPA (on March 22) stated that he was working on such a procedures manual and it would be in use in a couple of weeks. On March 23 Rev. Haywood, the program's president stated that there was no accounting procedures manual and that he would ask Mr. Smith to begin working on such immediately. The program has been in effect since September, 1978 and SVCC in operation for almost 10 years, it is highly irregular for an organization not to have developed written accounting procedures during this time. Also, it is highly irregular for the president of an organization and the organization's public accountant to give conflicting statements relative to these procedures.

2. SVCC initiated "Request for Payment on Letter of Credit" on January 26, 1979 and February 9, 1979. These requests cited a 3 day cash need of $38,139 and $10,400, respectively. Our review indicated that

these amounts represented 20 days and 17 days supply of cash, respectively.

3. SVCC's check register does not identify: later clarified Re

   a. The reasons for the disbursements;

   b. The nature/reasons for the deposits.

4. Documentation supporting the administrative salaries is poor and suspect:

   a. Forged signature was observed on the request for payment for November;

   b. Not all payment authorizations are signed, e.g., September, November and December, 1978;

   c. Some payment authorizations are xerox copies of subsequent month's authorizations, i.e., January's authorization originally was indicated as 2/1/79 - 2/28/79. The dates were then whited-over and 1/1/79 - 1/31/79 inserted. The February authorization was a xerox copy of January's with 1/1/79 - 1/31/79 whited-over and 2/1/79 - 2/28/79 inserted. The salaries authorized to be paid remained the same though there were fewer work days.

5. There is no relationship between the staff time being charged to the grant and the staff salaries being paid. SVCC is charging the grant monthly with the full budgeted amount of the grant divided by the grant period (18 mos).

6. Telephone charges are not based on actual cost incurred. The monthly charge is determined by dividing the grant budget ($4,725) by the grant period (18 mos) to derive the monthly fee of $262.50. This is the same procedure used in determining salaries in Item 5.

7. Purchase order alterations and vendor invoice alterations (by SVCC) were also observed.

   a. Vendor's invoices totalling $898.55 for supplies were originally marked by the vendor as being shipped to the SVCC General Fund #100. SVCC whited over the General Fund indication and typed in "Migrant & Seasonal Farmworkers Program #112." The type was matched to an existing typewriter at SVCC. No reason was given for the alteration at the exit conference.

   b. Two purchase orders originally dated January 5 and 12, respectively, were backdated by SVCC to January 3 and 10, respectively. The

vendor's invoices corresponding to the above purchase orders were dated January 5 and 12, respectively. The vendor is located immediately next to SVCC.

c. We could determine no basis for large quantities of supplies being ordered from the vendor.

8. There is inadequate separation of responsibilities:

a. Rev. Haygood approves all prices, requests all payments, approves all payments and signs all checks, the latter with his wife.

b. We could not determine if a responsible individual approved the receipt of all goods prior to a check being drawn for payment. On an order for consumable supplies, an individual signed the vendor's invoice but did not indicate if the goods were received or date the order.

c. On two occasions there was no evidence that pharmaceutical supplies procured for participants by SVCC personnel had ever been received by the participants. The owner of the drugstore was on SVCC's Board of Directors and had check writing authority.

9. We observed several instances of double endorsed checks. In one instance Vernon L. Richardson had endorsed checks made out to Ivy Jean Jones (terminated 2/19/79), Shelley Jackson, Bertha Falls and Jennie B. Freeman (terminated 2/19/79). Our questioning of personnel disclosed no one who knew Vernon L. Richardson. The checks were noted because they had been filled out on a typewriter. All other checks had been printed on an EAM type machine.

From a fiscal perspective, I can only conclude that Southern Vocational Community College is incapable of administering the DOL grant. Since SVCC is also funded by HEW, I am recommending that a comprehensive audit be performed of all funds and that ETA consider the suspension of funding pending the outcome of the audit and/or the investigation. Any other solution I would consider unwise in light of the serious fiscal problems raised by Mr. Rensbarger's assessment. If you need any additional information, please contact John Rensbarger on 523-6199.

cc: Official Yellow
CETA FILES (2)
DeMarco (2)
Rensbarger (1)

Graham R. Schatz
Renee Crucil ✓

SR:J. RENSBARGER:GI:
3/28/79:Rm S5030:NDOL:
EX 38424

UNITED STATES DEPARTMENT OF JUSTICE

FEDERAL BUREAU OF INVESTIGATION
Post Office Box 2128
Mobile, Alabama

In Reply, Please Refer to

March 14, 1979

Ms. Rence Crucil
Government Authorized Representative
Room 6214
601 D Street, N. W.
Washington, D. C. 20213

Re: SOUTHERN VOCATIONAL
COMMUNITY COLLEGE,
TUSKEGEE, ALABAMA -
MIGRANT SEASONAL
WORKERS PROGRAM

Dear Ms. Crucil:

Enclosed is a copy of a memorandum setting forth information obtained concerning the captioned matter.

This memorandum further details allegations and complaints received by the FBI as discussed with you telephonically on January 30, 1979.

This information is also being furnished to the VA, HEW, and Alabama State Approving Agency. All the receiving agencies are being requested to conduct appropriate investigations or audits if after reviewing this information it appears warranted. As indicated in the memorandum, it appears very possible that violations of fraud are being committed.

You indicated a review of this program at Southern Vocational Community College was scheduled for March. It is suggested that if this review is complete, a number of abuses will be found, as well as fraud.

This matter has been discussed with Assistant U. S. Attorney D. Broward Segrest, Montgomery, Alabama, and he recommends the investigation be handled by the

Enclosure

individual agencies involved at this time. However, the FBI will gladly assist when needed and you may obtain further details from Special Agent Robert E. Houser, FBI, Montgomery, Alabama, telephone 205-263-1961, FTS 534-7314. The mailing address is Post Office Box 4040, Montgomery, Alabama 36101.

Your attention to this matter is greatly appreciated.

Sincerely yours,

C. EDWIN ENRIGHT
Special Agent in Charge

By: ROBERT L. FRYE
Supervisory Senior
Resident Agent

UNITED STATES DEPARTMENT OF JUSTICE

FEDERAL BUREAU OF INVESTIGATION

In Reply, Please Refer to File No.

Mobile, Alabama

March 14, 1979

SOUTHERN VOCATIONAL
COMMUNITY COLLEGE,
TUSKEGEE, ALABAMA

Information was received by the FBI Resident Agency, Montgomery, Alabama, on January 10, 1979, from a student at Southern Vocational Community College (SVCC), Tuskegee, Alabama. The student's complaint concerned the delay in payment of her Basic Educational Opportunity Grant (BEOG) from SVCC after deductions were made for tuition and other school expenses. She indicated long delays in these payments were common with other students. She also made statements which suggested the Veterans Administration (VA) program and a Migrant Workers Program (later determined to be administered by the Department of Labor (DOL)), were not being handled in a proper manner.

A friend of the complainant was subsequently interviewed and provided essentially the same information. The friend, also a SVCC student, had also been told her BEOG was not being paid for a recent semester because she was on academic probation. No policy concerning suspension of BEOG's for academic probation at SVCC has been found.

A limited inquiry was subsequently conducted to determine if there are fraudulent practices being committed by SVCC in connection with the receipt and administration of its different Federal Financial Aid Programs. During this inquiry, interviews were conducted with former employees of SVCC, current and former students, current instructors, other sources familiar with the Tuskegee area, and representatives of the HEW, DOL, VA, and Alabama State Approving Agency.

This document contains neither recommendations nor conclusions of the FBI. It is the property of the FBI and is loaned to your agency; it and its contents are not to be distributed outside your agency.

87-811 O—82——11

SOUTHERN VOCATIONAL
COMMUNITY COLLEGE

As a result of this investigation, which has to ...ate been limited, a number of allegations which are ...eneral in nature and some that are specific, have been ...ade or implied. It is noted these allegations have not ...een confirmed. However, due to the nature and number ...f allegations, it appears a thorough investigation ...nd/or audit by the different agencies concerned as ...entioned above and hereafter would most probably show ...buses in these programs and violations of Fraud Against ...he United States Government.

Listed below are some of the complaints and ...llegations against SVCC as determined thus far:

Receipts issued to students showing BEOG payments with the receipt dated months before it was actually issued.

Withholding students' BEOG money on the basis the student was on academic probation although student was not advised until the semester started. It is not known if HEW was advised to discontinue payment for the student.

Rev. Lawrence F. Haygood, President of SVCC, has requested the financial aid officer to transfer BEOG funds from the next fiscal year to the current year. This occurred with a former employee who refused and later resigned.

Teachers do not report excess absences during the semester. At the end of the semester when the financial aid officer discovered the absences from the teachers' records, Haygood told the officer not to report some of the students to the VA.

Students are recruited with assurances to veterans that they can collect VA benefits and not be required to attend regular classes.

SOUTHERN VOCATIONAL
COMMUNITY COLLEGE

VA students' grades changed so they would continue to qualify for academic eligibility and VA benefits.

Many VA students rarely, if ever, attend classes and are not reported to the VA.

Attitude and requirements of SVCC are very lax on attendance and academic requirements.

Possibility that early dropouts in VA, BEOG, and Migrant Workers Program are not reported as dropouts and tuition not refunded and benefits stopped.

Possibly carrying students on Migrant Workers Program on school rolls after the student has quit and left town.

Taking duplicate tuition out of BEOG and Migrant Workers Program.

Long delays in paying students the balance of their grants after deducting tuition and expenses. Delays even into the following semester and possibly not paying at all to students who did not return.

Work study students not fully used or given any work. Hours not kept properly.

Excessive class enrollment for size room and number of instructors needed. Some classes frequently not held.

Students failing one course are allowed to take the next course in a series even though the failed course is a prerequisite for the next course.

High tuition charged and virtually all students on some kind of grant, VA or other Federal aid program. The cost and quality of education provided are such that virtually no one attends SVCC unless they receive some kind of aid as an enticement.

SOUTHERN VOCATIONAL
COMMUNITY COLLEGE

Numerous violations were noted in an HEW Program Review in August, 1978, even though not an in-depth or widescope stude was made. This would seem to indicate a more detailed audit could show extensive violations and abuses.

It appears there are a number of allegations and findings of abuse of the financial aid programs and management of SVCC. Should the agencies receiving this information conduct individual investigations or audits for their particular area of responsibility, it is very possible criminal acts of Fraud Against the Government will be discovered, in addition to non-criminal abuses and misuse of the aid programs.

State of Alabama
Department of Education
State Office Building
Montgomery, Alabama, 36130

Wayne Teague
State Superintendent of Education

April 6, 1979

Reverend Lawrence F. Haygood, President
Southern Vocational Community College
Post Office Box 688
Tuskegee, Alabama 36083

Dear Reverend Haygood:

The review made of your school on March 28, 1979, regarding compliance with Code of Alabama, Title 16-46-1:10, has confirmed a positive effort to achieve the minimum standards required for licensure. It has been concluded by this office that a conditional license may be issued to the school subject to accomplishing the proposed timetable previously supplied by letter of March 14, 1979, and the concerns expressed in this letter. Concerns which have not been properly addressed in the communication referenced are outlined subsequently for your information and made a part of conditional licensure requirements. This conditional license should not be construed to imply that the institution is in compliance with all other local, State or federal regulations over which this office has no jurisdiction.

A. Academic Program and Faculty

1. Additional instructors in BCT and Allied Health to permit a ratio not to exceed 1-20 students in laboratory courses. These will be identified on PS-11 forms.

2. A structured laboratory and clinical practice training program which will establish quality control and formalize community facility commitments is mandatory for Fall 1979 and strongly urged Summer 1979.

   (a) Identify tasks, standards, and conditions of performance for each course offered which is dependent upon community resources for laboratory or clinical experience.

   (b) State the amount of clock hours or the standard of performance required of each identified task and determine whether the task will be learned in the classroom, laboratory, or clinical setting. This will clarify the amount of credit hours allowance for each hour of performance and establish with appropriate community centers the support you are requesting from them.

   (c) Establish written agreements with each facility identifying responsibilities of the community facility, SVCC, and the students. Initiate quality control procedures to assure that students have achieved the required standards in all identified tasks prior to awarding academic credit.

(d) Since the effective use of the excellent community facilities available is essential to achievement of the stated course objectives, this requirement should receive a high priority with immediate attention.

3. Program revisions in BCT should be proposed to make possible achievement of course objectives with the limited equipment available in this laboratory.

B. Publications

1. The Bulletin and Student Handbook should be corrected as soon as possible by addenda and revised when reprinted.

(a) Consistency of titles "Southern Vocational College" or "Southern Vocational Community College" and correct address, location, and telephone visibly displayed.

(b) Refund policies revision effective Fall Quarter 1979.

(c) Listing of class, laboratory, and shop hours for credits awarded.

2. Copies are requested of all SACS reviews, self studies, and audits whenever available.

C. Fiscal Management and Stability

1. Final determination of fiscal management and financial stability is impossible because of a denial of information connected with certain federal programs which comprise 40-50% of the operational budget. Because a majority of students enrolled (perhaps as high as 100%) are supported by State and federal assistance, any significant changes in the status of these programs could seriously jeopardize the financial stability of the school.

(a) Please supply the names of Department of Labor officials and federal regulation number prohibiting release of information requested concerning Grant #99-8-1801-15-47.

(b) A response is needed to explain the proposed revision of the consultants reimbursement procedure.

(c) Copies of DOL and DHEW audits are requested whenever available and are essential in discharging the responsibility described in paragraph C-1.

D. Student Enrollment and Attendance policies

1. Attendance policies must be enforced as published.

2. Enrollment of students to avoid co-mingling of classes and overtaxing of facilities or instructors must be controlled.

E. Facilities

1. Laboratory, shop, and clinical experience facilities have been previously addressed, but ample evidence of solutions to these concerns will be necessary.

2. Library facilities at this point in time are inadequate, but a plan is underway to correct these limitations. It will be essential that volumes on hand be catalogued and sufficient to serve the curricula offered. Community support facilities will be identified as to the extent that these facilities are available to students for library usage and check-out utilization.

As of this date we have on file your PS-2, which is the $10,000.00 surety bond and PS-11, personal data forms for instructors. We are returning three of these for signatures of instructors. Additional forms required are completed PS-1, PS-7, and 8. PS-5 and 10 are optional should you desire to receive the complimentary agent's permit. These completed forms are required before the conditional license may be processed.

An affirmative response will be required attesting to the conditions established relative to the concerns expressed in this letter and in previous communications prior to issuance of the conditional license. This conditional license may be revoked upon determination that the agreed timetables established in your letter of March 14, 1979, and other deficiencies noted in this letter, have not been corrected.

Yours very truly,

E. C. Stephens, Program Director
State Approving Agency
817 South Court Street
Montgomery, Alabama 36104

ECS:cs
Enclosures: PS-11 forms for signature by instructors
C: Dr. Wayne Teague
Dr. John Porter, ACHE

PRE-AWARD REVIEW OF CONTRACTOR'S RESPONSIBILITY

NAME OF PROSPECTIVE CONTRACTOR
Southern Vocational College

ADDRESS (Number, Street, City, State, ZIP Code)
P.O. Box 688 Tuskegee, Alabama 36083

TYPE OF CONTRACT
National On the Job Training (NOJT) Youth

AMOUNT
$ 808,262

ACTIONS TAKEN TO DETERMINE CONTRACTOR'S RESPONSIBILITY. Every NO answer must be explained in COMMENTS (Instructions on reverse of form)

	YES	NO
Verified that prospective contractor is not suspended or debarred from Government work.	☒	☐

COMMENTS:

Verified that prospective contractor has financial and other resources to perform the Government requirement.	☒	☐

COMMENTS:

Verified that prospective contractor has previously performed satisfactory work.	☒	☐

COMMENTS: The Office of the IG are currently auditing this contractor as to allegations of fiscal and related problems. Preliminary IG report indicates no serious problems. Nevertheless, the proposed contract will contain provisions for monthly reports and invoices. Approval to continue contract will be required on a monthly basis.

Conducted On Site Pre Award Survey	☐	☒

COMMENTS: Contractor currently has a grant with the Migrant Division, and are being monitored by them. It is my stated intension to visit this contractor within the next three months.

Contacted Office of Labor - Management and Welfare Pension Reports (*if applicable*)	☐	☒

COMMENTS: N/A

NATURE OF PERSON WHO CONDUCTED REVIEW
Ernest Hodgkins

DATE
April 17,1980

SEA 8-163

U.S. DEPARTMENT OF LABOR
EMPLOYMENT AND TRAINING ADMINISTRATION
WASHINGTON, D.C. 20213

To: Official Contract Files April 17, 1980

From: Ernest Hodgkins

Subject: MEMORANDUM OF NEGOTION Southern Vocational College

On April 14, 1980 Lamond Godwin read to Bill Kacvinsky and me portions of a preliminary report from the IG Office stating, in essence, that there are no serious problems as to the allegations leveled against the subject contractor relating to his current grant with the Migrant Division under Sec. 303 of CETA.

I was further instructed to assist Rev. L. Haygood in developing a proposal under Sec. 301 of CETA for $625,000. It was agreed to limit Rev. Haygood to 30 day contract periods pending receipt of monthly reports and invoices - this would permit direct and close control over contract performance pending: 1) a final report from the IG and, 2) successful performance in the pending contract on a monthly basis.

Rev. Haygood and I negotiated on April 15-16, 1980 and developed a proposal agreeable to both of us for $498,262.
He agreed to submit monthly reports and invoices. He further agreed to provide me with job descriptions and the names of persons that will fill those positions.
Of the 250 enrollees, he agreed to 110 economically disadvantaged, 75%(188) minority and 50% (125) female.

I informed Rev. Haygood that I would be his federal representative the first several months, and that I intended to visit his program within the next few months.

Initial proposal was approved for $625,000. Rev. Haygood was informed that $[illegible] would be deducted from that amount, leaving a [illegible] contract for $[illegible], in order to [illegible] for a $[illegible] overrun in his Sec 303 grant in the indirect rate line item.

Rev. Haygood was also informed that the award of this pending contract was dependant upon his agreeing to provide DOL with a copy of the audit currently being conducted for HEW.

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U.S. DEPARTMENT OF LABOR
EMPLOYMENT AND TRAINING ADMINISTRATION
WASHINGTON, D.C. 20210

Date: April 18, 1980

Subject: New Contract Package for Southern Vocational College

To: Sandy Cohn Chief, Divl of Contracting Services

Negotiations for Southern Vocational College have been completed.

Sole source justification has been waived in accordance with the Secretary's Order number 24-74, dated November 1, 1974. The necessity for Sole Source justification has been waived as follows:

Under Section 5 (applicability),
Part a (exemptions)
☐ Item #1 (Interagency Agreements)
or
☒ Item #3 (OJT, JTP, AOP, P&D, JO or OKP)

Enclosed are a pre-award survey, memorandum of negotiation, PAR, two copies of the contractor's budget and statement of work and any other necessary and related papers. Please prepare a contract as follows:

Period of Performance: April 21, 1980 to April 20, 1981

Funding Level: $498,262.

Slots: 250

The Federal Representative is: Ernest Hodgkins

Monthly invoice and narrative report are required. Contract is to be for 30 day periods, the continuation of which will be dependentupon their performance each 30 days. Contract no. is 99-0-1801-92-16. Prior to award, the contractor must certify that he will make available to the DOL copies of audit being conducted for HEW.

[illegible] E. FIEVE, Chief
Division of National Training Programs

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U.S. DEPARTMENT OF LABOR
EMPLOYMENT AND TRAINING ADMINISTRATION
WASHINGTON, D.C. 20213

MEMORANDUM FOR: LAMOND GODWIN

FROM: HAROLD E. RIEVE

SUBJECT: Southern Vocational College Youth Employment and Training Proposal

Because of the current FBI investigation and the impending audit of the Inspector General's office, I would recommend that you consider withholding funding of the proposal with Southern Vocational College. HEW has taken Southern Vocational College off the letter of credit and put them on a cost reimbursable basis and has recommended that we consider doing the same. Bob Houser, FBI said there is a question concerning the licensing of Southern Vocational College - that it probably was not acceptable for accreditation since they found misuse of funds in the VA, HEW, and DOL grants. Dawn Schraegle - DOL 523-8396 Inspector General's office - Main Labor states she is going to conduct an audit on Southern Vocational College books the last week in February - and would recommend that we hold up on awarding any contract at this time.

The CHAIRMAN. Now, in April, you have had the benefit of three independent reports with serious, specific allegations concerning Southern Vocational College and its administration and financial practices. Subsequent to this, the IG, the Inspector General, finally did request an audit, a draft of which was completed in March of 1980, as I understand it. Is that correct?

Ms. CRUCIL. I think that is about the right date.

The CHAIRMAN. Now, as a result of your and Mr. Rensbarger's efforts, the FBI's interest, and the State Board of Education in Alabama, as I understand it, the grant money for Southern Vocational College was taken off or rescinded. Is that correct?

Ms. CRUCIL. It was taken off the letter of credit and put on a reimbursable basis.

The CHAIRMAN. Right. Therefore, it was taken off a letter of credit and put on a cost-reimbursement basis. Is that correct?

Ms. CRUCIL. Right.

The CHAIRMAN. I think those were the two exhibits we placed in front of the GAO when they were here testifying.

For the record, are you aware of any preliminary report from the Inspector General around April of 1980 that indicated that these allegations were not so serious?

Ms. CRUCIL. I do not believe so.

I should say that around about the first of November of 1979, I transferred into another program. I have some idea of what went on after that, but not real specific.

The CHAIRMAN. Well, you have seen the memo that we have listed as exhibit 8(e), which we will make part of the record, from Mr. Milici. Am I pronouncing that right?

Ms. CRUCIL. That is right.

The CHAIRMAN. That memo reinforces that concerns were still quite serious in the spring of 1980. Is that correct?

Ms. CRUCIL. That is correct.

The CHAIRMAN. Then, without objection, we will put that in the record at this point.

[The information referred to follows:]

Exhibit # 8(e)

MAR 03 1980

MEMORANDUM FOR: LINDSAY L. CAMPBELL

FROM: CARMELO J. MILICI

SUBJECT: Grant Modification for Southern Vocational Community College (SVCC)

You told me today that Lamond Godwin instructed you to extend SVCC's grant for one month beyond the current expiration date of March 5, 1980. I strongly recommend against that action.

As you and Godwin are aware SVCC has been under investigation by the FBI since January 1979. The seriousness of the allegations raised by that investigation led to an assessment visit in March 1979, by Bruce Crucil of the Office of Farmworker Programs, and John Bensbarger of the Inspector General's Office. The irregularities turned up by their review prompted Godwin to send a CPT to the Office of Investigations and Compliance.

The above actions led in turn to taking SVCC off the letter of credit and putting them on a cost reimbursable basis; and to a request by OFT for an immediate DOL audit of SVCC. (That audit was begun February 25, 1980, by Metcalf, Frix & Company.)

Now, as Godwin points out, the allegations leveled at SVCC have yet to be proved. On that basis, we have no justification for denying SVCC the remainder of the funds in its grant. However, it is one thing to give a grantee his money because the terms of the grant entitle him to it. It is quite another thing to give a grantee new money when we have no obligation to do so, and all the critical warning signs counsel caution rather than precipitous action. Indeed, if we have an obligation it is to suspend action until the truth of the allegations has been resolved.

Therefore, I consider it my duty to recommend that we not give SVCC any additional funds. I also urge you to try dissuading Godwin from acting hastily.

cc:Milici, Files
TMPP:JOE MILICI:bjt 3/3/80:Rm. 6318 PHB:
EXT. 66128:

The CHAIRMAN. It says here—this is a memorandum for Lindsay L. Campbell from Carmelo J. Milici, subject: grant modification for Southern Vocational Community College—

You told me today that Lamond Godwin instructed you to extend SVCC's grant for 1 month beyond the current expiration date of March 8, 1980. I strongly recommend against that action.

As you and Godwin are aware, SVCC has been under investigation by the FBI since January 1979. The seriousness of the allegations raised by that investigation led to an assessment visit in March 1979, by Renee Crucil of the Office of Farmworker Programs, and John Rensbarger of the Inspector General's office. The irregularities turned up by their review prompted Godwin to send a QAR to the Office of Investigations and Compliance.

Ms. CRUCIL. Questionable activities report.

The CHAIRMAN. Oh, I see.

The above actions led in turn to taking SVCC off the letter of credit and putting them on a cost reimbursable basis; and to a request by OFP for an immedite DOL audit of SVCC. That audit was begun February 15, 1980, by Metcalf, Frix & Company.

You are aware of that memorandum as well?

Ms. CRUCIL. Yes.

The CHAIRMAN. OK. At this point I would like to ask Mr. Kacvinsky if this was what Mr. Godwin read to him and Mr. Hodgkins, and if he actually saw, reviewed, and included this report in the file.

Mr. KACVINSKY. Mr. Chairman, I recall Mr. Godwin calling Mr. Hodgkins and I into his office, and he read from a report which I had not seen. He read that there was no wrongdoing that he could see from that report.

I also am aware of a memo that was to Mr. Godwin from a Mr. Harold Rieve, prior to this investigation, again reiterating the FBI

investigation and the impending audit of the Inspector General's office, that recommendations of withholding funding of the proposal should be done. However, I did not see the report at that time. He did read from it.

The CHAIRMAN. As I understand it, as I mentioned to Ms. Crucil, so far we have had three independent assessments in 1979, continued concerns of program officials through 1980, a draft report by the Inspector General, and a final report and audit released which confirmed the activities in 1979. We will put all of those reports in the record at the appropriate points.

Senator Kennedy?

Senator KENNEDY. Thank you, Mr. Chairman.

Just as a matter of interest, I see where on our witness list, Mr. Chairman, we have 10 witnesses that were supposed to appear here this morning. I see we have seven. Do we know where the other three are?

The CHAIRMAN. Excuse me, Senator Kennedy. I was interrupted.

Senator KENNEDY. Yes. We have 10 Labor Department officials on the list and I think we are fortunate to have 7 here this morning. Do we know where the other three are?

The CHAIRMAN. What other ones are you referring to?

Senator KENNEDY. Well, if you add them up——

The CHAIRMAN. On the list I have, I have eight from the Labor Department plus——

Senator KENNEDY. Well, the witness list I was given has 10 on it.

The CHAIRMAN. That is different from the one I have.

Senator KENNEDY. Are you giving out different ones? [Laughter.]

The CHAIRMAN. I do not know. Deborah Barnett is not here. We do not know where she is but we will certainly try to find her, and hopefully either get her in or get her sworn statement. Who were the other two?

Senator KENNEDY. Ron Luden and Fred Romero.

The CHAIRMAN. I understand that witness list is 2 weeks old and this is the current one.

Senator KENNEDY. We just received it last evening.

Mr. Slobig, as I understand, you are the senior official from the Office of Youth Programs.

Mr. SLOBIG. In the absence of anyone else here today, that is correct. [Laughter.]

I am certainly not the senior official from the Office of Youth Programs.

Senator KENNEDY. Well, with regard to our panel?

Mr. SLOBIG. With regard to this table, that is true, Senator.

Senator KENNEDY. I want to first of all thank all of you for joining with us here today.

Now a number of serious allegations have been made this morning about the contracts awarded in the last days of the previous administration. Are these reports representative of the way the Office of Youth Programs has been conducting business over the last 3½ years?

Mr. SLOBIG. Absolutely not, and to construe that they are in any way representative of the last 4 years of effort by a dedicated professional staff who have tried, I think, to efficiently and effec-

tively safeguard the expenditures of the taxpayers' money, is misconstruing what I perceive as the reality of what I have experienced.

Senator KENNEDY. You heard Mr. Angrisani this morning. He talked about improving the management of the agency, about efficiency, effectiveness. How would you evaluate the performance to date since January, in terms of these kinds of contractual responsibilities? Have you seen a very noticeable improvement?

Mr. SLOBIG. Well, Senator, I think before attempting even to answer that question, it is important to step back from the specifics that have been discussed at the table this morning and to look at title IV discretionary funds in the perspective of history, congressional history, as well as administrative experience.

I may not have everything accurate but at least this is my perception of what has occurred since August of 1977. When Congress in its wisdom passed the Youth Employment Demonstration Projects Act in 1977, which was envisioned at that time to be a short-term, limited, high-funded demonstration effort, they gave the responsibility for implementing that effort to the Employment and Training Administration, who very quickly assembled a task force which Ms. Higgins was a part of, and only over the course of several months established a formal organization which became the Office of Community Youth Employment Programs to assume the responsibility for carrying out Congress' mandate.

I think it is very important to keep that in mind when we talk about the kinds of procedural issues that the General Accounting Office focused on in their scrutiny of title IV grants and contracts. The process and the experience was established early on, necessitated by the fact that we had a limited-duration, short-term demonstration effort, to mount it fast, to get projects up as quickly and efficiently as possible within the constraints that we had to deal with, and to try to do it in as professional and defensible a manner as could conceivably be done.

I think if you will look back over the history, right now our office has a contract inventory system of over 600 separate contracts and grants that have been funded out of title IV resources since the passage of the act. To look at the 19 projects that the General Accounting Office selected as a sample from a slice of history in the Employment and Training Administration—which I think everyone at this table will admit was an aberration, I mean, that period of time was not a normal time from our experience. It certainly is not a normal time from my experience in the 10 years I have spent in the employment and training administration.

It is important to say that—and also to view what has happened in our professional existence as administrators of those discretionary contracts and grants—that an enormous amount of resources was provided over the fiscal years since that time to the present to fund discretionary efforts. Only history and subsequent efforts on the part of auditors and evaluators and researchers can really bottom-line what that experience tells us.

However, from my perspective I think that we went about it in a responsible, efficient, professional manner. My own sense is that the 600 items that are funded—maybe half, 40 percent of which are still alive out there—will stand the test of time both in terms of

bottom-line effectiveness as far as the programs that we funded as well as, in the final analysis when they can complete all the audits in the world that they want, I daresay that we will not find an outrageously surprising percentage of finally disallowed costs.

I mean there are two bottom lines, it seems to me, that we have to keep in mind. There is a bottom line that Mr. Angrisani seems to want to focus on which is audit, balance-sheet related. There is a bottom line that I and other program-oriented people have focused on.

I am not a contract specialist. I was not hired to be a contract specialist. I cannot defend the Employment and Training Administration's contract procedures but I can defend the kind of professional judgment and decisionmaking that was done on a program-oriented basis to fund the projects that we funded, and I will defend it against anybody's attacks.

Senator KENNEDY. Just a quick reaction from other members of the panel: Do you agree or disagree on it? Just make it brief, make it quick, so we can——

Mr. KACVINSKY. Senator Kennedy, you heard Mr. Slobig defend the youth programs and you heard me earlier defend the title III national programs. I think in about the same way we do have a parallel there. Programs that we were running that we were supposed to be doing were professionally done, and they were good programs, and they were getting people to work.

Mr. ALEGRIA. I would just like to add to that, that even in the chaos of the last couple of months, PUSH is a very good example where we had the grant redone, where we negotiated, where I think we got the very best for the Government. As Jim Aaron pointed out, there were certain things in there that we did not want. We eliminated those. We put in safeguards, and the bottom line is, even in those cases things went off to the best interest of the Government.

I might add that we were definitely told how much and for how long by the previous administration but, on the other hand, nobody ever stopped me from insuring that it was programmatically sound, and if I wanted any safeguards in there, I insisted and got them.

Senator KENNEDY. Mr. Aaron, the Greater Cleveland Growth Corp. has been referred to earlier as one of "midnight specials," how efficient and how effective has the program been? Would you fund it again?

Mr. AARON. Yes, I would, Senator. As I explained to Chairman Hatch, I have not been able to visit the program onsite but the reports that I have received, it appears that it is excellent.

Senator KENNEDY. Mr. Slobig, what sort of current frustrations are you feeling? We hear them there, both in what you are saying and——

Mr. SLOBIG. Well, aside from the fact that like most of the rest of the Employment and Training Administration staff, I got my reduction-in-force notice yesterday——

[Laughter.]

Mr. SLOBIG [continuing]. Which says something, I guess, about the projected level of staffing that we may have to deal with the winding down of all that we have wrought over the last 4 years, I think that once again I would like to step back and suggest that

the frustration that I have and the frustration that I hear expressed to me every day by the staff that I have—and let me digress again and say that I am in the Division of Program Review and Analysis in the Office of Community Youth Employment Programs.

We have had, since the inception of the title IV effort, responsibility in that division for basically mounting, overseeing, carrying out, all of the demonstration, research, and evaluation activities funded out of discretionary resources. Probably out of the three-quarters of a billion dollars, three-quarters of a billion dollars of taxpayers' resources that have been expended in that area, I would guess 80 percent of it has been under our division's responsibility.

Right now, there are seven full-time professional staff people in that division. I do not know of any private sector business that would try to run a multimillion-dollar corporation with seven professional staff people.

Be that as it may, my point about the big picture backdrop is simply this: We have gone, in a period of 1 year, from being the darling of the previous administration—the singular domestic initiative in the last fiscal year of the previous administration, with an administration-recommended level of resource support, if I recall, in excess of an additional billion dollars to what we previously had had—that is what the level of anticipation and mood backdrop was about a year and a half ago.

The level of recommended resources for title IV youth programs in the present administration's budget was zero. I mean, when you talk about a microcosmic reflection of the pendulum swings in the different budgeting and policy direction from one administration to the next administration, you have perhaps the quintessential example of the folks that feel like they have been "ying-yanged." [Laughter.]

I mean, you cannot go much more than from $2 billion to zero. Therefore, that is there as a backdrop, I think, that colors the whole mood, the level of staff morale, and the kind of feeling that people have about their jobs. That is independent of RIF notices. That only adds to the frustration and the anxiety that people feel.

You have, along with that, a kind of wrenching philosophical change, which suggests, to me at any rate, that we have moved from a distinctly program-oriented focus, clearly to a process, procedural-oriented focus which leaves people like myself who are basically program people, who have worked in the program field for 10 years or more in the Employment and Training Administration pretty much at sea in terms of even how you see your job.

I do not know whether the same kind of frustrations are shared by other long-term members of the Employment and Training Administration staff that sit beside me here but I certainly feel that way, and I think that the staff that work for me are a reflection of that kind of feeling. There is a sense that no one above us really either knows about what we have done for the last 4 years or really cares.

It was stated this morning, I believe, by Senator Quayle, that what he was really concerned about in the final analysis is that we learn from this whole experience what works best for whom and why. Well, it seems to me that in no other organization that I

know of around town, we have consciously and carefully designed a set of demonstration projects in our organization that fit under an overall umbrella that provides us the basis for being able to make those kinds of judgments.

Senator KENNEDY. Yes, but with all fairness—and let me just be the devil's advocate here—you have heard a lot of other charges and allegations this morning, memoranda and statements as well on it, with regard to these programs and how decisions are made to fund them. Now what are we supposed to take out of this hearing? I think you have made a very eloquent——

Mr. SLOBIG. Well, I think what we need to take out of this hearing is that clearly there were deficiencies, procedural deficiencies in the way things were handled. I think Mr. Kacvinsky admitted this. He admitted that if you look back over the past 10 years, if this hearing had taken place 8 years ago we probably would have come up with the same conclusions. I think that there have to be distinct changes made in the way things are done.

I am not so sure that swinging from a substantial amount of sole-sourcing to "everything has to go competitive" is the right way to go. Your reference to how the Defense Department does business this morning was an interesting one because it raised some questions in my mind about compromise ways in which you could go sole-source.

I would be the first to admit that the majority of the things that we funded out of our office were done on a sole-source basis. They were done on a sole-source basis because if we had to go a competitive process we never would have gotten them done. We could not have gotten them done within the constraints of time that were originally laid out in the congressional mandate to run with it and go.

Senator KENNEDY. Well, how are the decisions being made now?

Mr. SLOBIG. There aren't any decisions being made, and that is the biggest frustration that I have. [Laughter.]

I say that in all seriousness. I mean, we have right now—I think there are approximately 260 projects funded out of our office with fiscal 1981 resources in them. Only 41 of those projects are conceivably going to be alive after December 31, 1981—41. A list of 41 projects, as I understand—it has been held close to the vest—but a list of 41 projects has been sent forward to Assistant Secretary Angrisani for consideration for extension beyond December 31, either with or without additional funds, depending upon the nature of the project, and for varying durations of time.

We have not even begun to think about fiscal 1982 projects yet but that set of projects went forth almost 2 months ago and no decision has been made. Contractors are sitting there, people went out of business technically on September 30 because no decisions were made. After the fact, they had to be informed by telegram that they were extended for a period of time. That is the kind of frustration that we have.

My perception is that the mentality that I have had to work under for the last 9 months suggests that a decision deferred is a dollar saved. I even wonder to the point where, in the implementation of reduction-in-force procedures which we are about to undergo in the Employment and Training Administration, whether that

same attitude will not prevail, and that scares me. As the sole supporter of five kids and a wife, it really scares me.

The CHAIRMAN. Well, I have to admit I hate to see anybody receive a reduction in force, regardless of differences in philosophical and ideological beliefs.

Senator KENNEDY. The hour is late. This was a very eloquent and forceful statement but I do not want to cut anybody off. I would welcome the chance to hear from any other panelists, briefly. If the others want to make a brief comment, I would welcome it.

Mr. SLOBIG. I will welcome the opportunity that Senator Hatch gave me earlier of submitting additional information for the record.

The CHAIRMAN. We would be happy to have that. I think it is safe to suggest that you have violent disagreements with the present administration on how CETA is or is to be operated.

Mr. SLOBIG. I do not think that is necessarily true. I do not think you should necessarily infer that from the comments that I made.

The CHAIRMAN. OK.

Mr. SLOBIG. I mean, it is not a partisan political point of view. I came into this man's government under a Republican administration, Mr. Nixon, and worked for him and worked for Mr. Ford and worked for Mr. Carter, and now I work for Mr. Reagan. I try to see my job as carrying out as efficiently and effectively as possible the professional mandate that I have as an employment and training expert.

The CHAIRMAN. I see.

Mr. Kacvinsky, just one last question: In spite of what Mr. Slobig has said, you are not going to back down on your statement that you felt that some of these funds were being used for middle-management consulting and other things rather than going to getting kids to work. Is that correct?

Mr. KACVINSKY. Yes, sir. It is correct.

The CHAIRMAN. You will still stick by that statement? I think that says something pretty eloquently, also.

Let's take a 5-minute break and we will be back.

[Brief recess.]

The CHAIRMAN. We will resume the latter part of this hearing.

Up until now we have had a certain tolerance for expressions of emotion in here but we would prefer that we have no expressions of emotion one way or the other. Let's listen to the witnesses and give them every consideration, and let's proceed from here.

We will now call on Mr. Green, former Assistant Secretary of Labor.

Mr. Green, I understand you have a statement.

Mr. GREEN. Yes, sir. I do.

STATEMENT OF ERNEST G. GREEN, FORMER ASSISTANT SECRETARY FOR EMPLOYMENT AND TRAINING, U.S. DEPARTMENT OF LABOR, ACCOMPANIED BY ROBERT WASHINGTON AND JIM CHRISTIAN, FINLEY CUMBLE & WAGNER

Mr. GREEN. Mr. Chairman, I am accompanied by my firm's counsel from the law firm of Finley Cumble & Wagner, Robert Washington to my left and Jim Christian to my right, both partners.

Mr. Chairman and members of the committee, at your committee's invitation I am happy to be here today to present testimony regarding the administration of the CETA program during my tenure as Assistant Secretary for Employment and Training within the U.S. Department of Labor. I was appointed to that post by President Carter in March 1977 and served until Jan. 20, 1981.

It is my understanding that one of the catalysts for your committee's inquiry into this area was a flurry of recent press reports raising questions about the process by which CETA contracts and grants were awarded during the last months of the Carter administration. Further, it is my understanding that the committee, pursuant to its authority and its response to the press reports, requested the General Accounting Office to conduct an investigation which has been reported in two studies, HRD-81-111 and HRD-81-145. These reports closely scrutinize a number of awards made during that period using CETA titles III and IV discretionary funds. While reviewing some of the same questions raised in the press reports, the GAO reports seem to refine the issues that appear to be of interest to this committee.

Because of my own role in the Department of Labor's employment and training policies, I am delighted to have the opportunity to directly address any criticism of the manner in which these programs were administered during my tenure in public office. Hearings such as these are sound mechanisms for airing any questions which the public may have about the administration of large Federal programs and laying such questions to rest.

I am especially pleased to participate in these hearings because of my belief that the actions of the past administration, particularly with regard to CETA, will stand up to close public scrutiny, and because of my desire to remove any cloud that recent reports may have placed on the merits of CETA itself. Before responding to specific questions that the committee may have, I would like to address in a general fashion issues raised on the GAO report by the press concerning my administration of titles III and IV, discretionary funds during the last 4 months of the Carter administration.

The CHAIRMAN. Mr. Green, could I interrupt you?

Mr. GREEN. Excuse me?

The CHAIRMAN. If I could, I forgot to swear you in. Would you stand and raise your right hand?

Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. GREEN. I do.

Senator KENNEDY. Does that apply to the earlier testimony he has given already?

The CHAIRMAN. I would think, knowing Mr. Green, it would.

Mr. GREEN. It has been suggested by some and implied in the media that I and other Department officials responsible for making the determination on CETA awards proceeded after November 4 to dispense Federal moneys to our political friends with wild abandon, knowing that soon we would not be able to help them. One report goes so far as to quote a person as saying that while the activities were not illegal, they were unethical.

In our view, the GAO reports discredit the notion that one or a few individuals possessed unfettered power to dispense grants in this fashion or that they actually did so. In reality, the awards made during the transition period were not only in complete accord with the law but they were a product of careful review and scrutiny under comprehensive systems of checks and balances established within the Department. These rigorous new procedures were first voluntarily instituted by the Carter administration and Secretary Marshall as an added safeguard to ensure sound administration and management of CETA.

In other words, the awards in question were subject to the same process of thorough review that others made before November 4 were subjected to. Although the moneys were discretionary, the awards certainly were not made arbitrarily. I think it is important to restate for the committee the approval process which preceeded the granting of noncompetitive awards.

First, the Procurement Review Board had primary responsibility for approving a proposed noncompetitive contract involving $10,000 or more. This board was chaired by the Assistant Secretary for Administration and Management, and included others in the Department, but members of the Employment and Training Administration were excluded from serving on that board.

Certain Office of National Programs awards under title III were exempted from the review board's consideration. Proposals in this category consisted of those made by community organizations with "demonstrated effectiveness" in the delivery of employment and training services. A number of Office of Youth Programs discretionary funding awards under title IV were also in this exempted category.

The so-called demonstration program awards required, however, the specific approval of the Secretary's Steering Committee established by a memorandum issued by Secretary Marshall. The Secretary's committee consisted of five individuals: the Executive Assistant and Counselor to the Secretary, Paul Jensen; the Deputy Under Secretary for Legislation and Intergovernmental Relations, Nick Eddes; myself; my deputy, Charles Knapp, who was also serving as Special Assistant to the Secretary; and Lamond Godwin, Administrator of the Office of National Programs.

Thus, discretionary title III and IV funds, which did not have to be approved by the review board, nevertheless had to be approved by the Secretary's Steering Committee. In short, all awards treated in the GAO report were specifically authorized by committee review. Neither I nor anybody on my staff had the authority to unilaterally approve a discretionary fund award or a modification of an award.

I want to emphasize that no contracts or grants were made without committee review and approval. It is important to recognize that award proposals submitted for review under the process I have just described had to also fit within the carefully developed funding plans for title III and IV discretionary funds. During my tenure, I set forth written procedures for developing and executing such plans. For the record, I would like to submit a copy of a memorandum dated Oct. 2, 1979 from me to the ETA executive

council, as an illustration of the budget review procedures implemented.

As a result of these procedures, funding requests from various offices were carefully considered and reviewed by the executive committee I created, whose members included among others, Charles Knapp; Robert Jones, the Director of the Office of Assistance; and Lamond Godwin. It was only after this body's consideration that a plan was sent forward to the Secretary for his consideration and approval.

Thus, the funding parameters were very carefully and clearly established in accordance with congressional authorizations prior to reviewing specific award applications. GAO reports identify a total of 4 awards made under title III that were not in the OMP funding plan, and 18 made under title IV that were not in the OYP funding plan.

As the reports indicate, there is no legal issue with respect to the funding of unplanned awards. On the contrary, the 1978 CETA reauthorization act contemplates that the Assistant Secretary for Employment and Training will have to make readjustments in the funding and authorizes him to do so.

However, even in those instances where I determined that a readjustment would be necessary, the decision was reached only on the basis of review and approval by the Secretary's Steering Committee. I wish to note that the GAO report HRD-81-145 exhibits C and D overstate the number of awards made which were not part of the funding plan.

Two of the awards, Community Services and the Pacifica Services under title III, and three of the awards under title IV, Delta Sigma Theta Sorority, University of the District of Columbia, and Dr. Benson Penick, were line items in a legislative budget whose funding by definition was contemplated. A prior focus of the GAO report concerns the number of telegrams that were sent to contractors and grantees in the last month of the Carter administration authorizing the use of funds. Telegrams sent out on January 19, 1981, the last full day of the Carter administration, a total of 25, appear to have elicited a special degree of scepticism.

There is, of course, no question raised about the propriety of Labor Department officials doing business in this fashion. The authorization to incur costs pending finalization of a contract is a long-standing Labor Department practice intended to avoid unnecessary delays in the startup or continuation of grants and contracts that have already been approved as to the awardee and the amount by the process I previously described.

In no case could the sending of a telegram represent the unilateral decision of the individual signing the telegram to authorize the addressee to incur costs. Transmission of a telegram was essentially a ministerial function providing immediate notification to a contractor or grantee to begin performance on the award pursuant to the Labor Department's prior approval at higher levels.

In most instances, an awardee's application had been under consideration at the Department for some time. However, the negotiations process had been completed; only formal execution of the contract remained to be done, and this was a stage which generally speaking I did not get involved in.

The committee also asked GAO to make a comparison between the number of telegrams sent in January 1981 with the total number sent during a normal period of operation. Although GAO's data does not allow a valid comparison, the reports indicate that there were more telegrams sent during the first 19 days of 1981 than all of fiscal year 1979.

However, even if there was a high degree of telegram activity in the final days of the Carter administration, the reason for its existence is clear. It was due to the tremendous time pressures we were operating under during the final period of the outgoing administration. During that period immediately following October 1, the beginning of a new fiscal year, the Department was operating under a continuing resolution and without any clear picture of the total amounts that would be authorized for programs.

In keeping with this state of affairs, there was no commitment of title III and title IV money until the exact authorization became known. It was also difficult to convene the review board because of unavailability of its members during this period, and awards could not be approved without their review.

The end result was that there was a significant backlog of pending applications which were subsequently considered in the normal course of business and disposed of in accordance with established procedures. The number of telegrams was symptomatic of breaking the bottleneck after review procedures had been complied with. This activity was, of course, in keeping with President Carter's directive to the departments and agencies to continue rendering service to the American people during the transition period, up until the last days of his administration.

I would like to submit for the record a table analyzing the nature of the contracts with respect to which telegrams were sent out on the 19th. The summary of this analysis shows that although the contracts involved a total of $9.287 million, only $4.441 million or 47.5 percent of the contract awards were authorized to be spent by the telegram addressees.

Many of the press reports have suggested that the activity of the Department resulted in an overcommitment of funds and corresponding Antideficiency Act violations. As we understand the GAO reports, no such overcommitments in either title III or title IV discretionary funds have been found to exist. GAO report HRD-81-145 indicates that of available funding of $156.1 million under fiscal year 1981 title III moneys, only $51.2 million had been obligated as of January 30, 1981. Of a total funding of $201.3 million under title IV, only 52.2 million had been obligated.

I must express my own personal disappointment at finding out that less than one-third of the total funds available for fiscal year 1981 were actually obligated, and that even these amounts have been reduced by the current administration in seeking closeout or termination on the theory that funds have been overcommitted.

As a former administrator of the CETA program, I fully appreciate the value of outside inspection by the GAO. Although I disagree with some of its conclusions, I believe that the reports also contain valuable insights that provide a basis for improved management of titles III and IV discretionary funds.

Before turning to the questions, I want to express my own personal conviction of the need for Federal employment training programs. It is with personal frustration and deep regret that I and others concerned about public jobs programs witness the retrenchment being made.

Ironically, these cuts are being made at a time when a broad range of improvements in CETA, supported by former Secretary Marshall and myself, are being effectively implemented. These improvements include tighter eligibility standards for public service jobs, tax credits and training subsidies for private employers of the "hard core," and more stringent monitoring and auditing. These improvements allowed CETA to focus more intensely on its original goal, which was, in 1973, to provide jobs for the hard core unemployed.

The Carter administration was dedicated to the same commitment the previous two Republican administrations had made to assist economically disadvantaged citizens in finding jobs that would lead to permanent employment and eventually self-sufficiency. A conscious effort was made by the Carter administration to encourage the administration of CETA programs by individuals with backgrounds similar to the backgrounds of people CETA reached out to and assisted.

Since 1973, CETA has provided job and training opportunities to hundreds of thousands of disadvantaged citizens all over the country. For most of these people, CETA provided the only opportunity to pull out of what would otherwise be a severe personal and economic crisis. It encourages people to help themselves by providing jobs, the opportunity to learn new skills, and needed incentives.

CETA has been enormously successful in helping individuals dependent on general public assistance to work toward complete self-sufficiency. I know this last point is an objective which members of this committee strongly support. Public jobs programs are critical to meeting this objective.

I would like to respectfully point out that the elimination of public job training programs would by no means save the Government the total cost of the programs. With each such cut, general public assistance expenses and unemployment benefits increase while social security and income taxes decrease. It is my understanding that if public job and training programs were completely eliminated, as much as 25 percent of the savings to the Government would be offset by the increase in public assistance expenses and a decrease in tax revenue. In my judgment there is no doubt about this proposition.

Employment and training legislation has served the useful purpose of identifying and providing a response to the problem of unemployment generally and the hard-core unemployed in particular. It is ironic that at a time when economic conditions are deteriorating, especially those affecting the economically disadvantaged, the trend toward the elimination of salutary public programs of this type is even more strident.

The administration on Sunday acknowledged that the country is in a "slight recession." However, that sector of our economy which these programs target is in fact in a depression. I respectfully note

that the unemployment among blacks is currently at its worst level in over 20 years, 16.3 percent.

I am proud of the role that I have played in the field of employment and training, trying to address the needs of those most in need—the unemployed, underemployed, and economically disadvantaged. I stand on my record of demonstrated commitment and capability.

Senator KENNEDY. Mr. Chairman, before we get started, I noticed Congresswoman Cardiss Collins is back.

The CHAIRMAN. We are happy to welcome you, Congresswoman.

Senator KENNEDY. Is it possible that she could come up here?

The CHAIRMAN. Cardiss, why don't you come up here. Come on up, Congresswoman Collins. We will be glad to have you up here. We are happy to welcome you to our hearing this morning.

Mr. Green, where did you incorporate Green-Herman, Inc.?

Mr. GREEN. Where? It was incorporated in Delaware.

The CHAIRMAN. Delaware? As I understand it, it was incorporated on January 20, 1981. Is that correct?

Mr. GREEN. That is correct, Senator.

The CHAIRMAN. On June 24, 1981, staff members of this committee handcarried a letter to your attorney, who accepted it as counsel for Green-Herman, Inc. Are you aware of that letter?

Mr. GREEN. Yes, sir, I am.

The CHAIRMAN. For the elucidation of the committee, those present, and of course for our record, Mr. Green's firm was asked in the letter to identify contracts, subcontracts, grants, or subgrants from CETA, whether the firm had been receiving any funds from prime or subcontractors under any other Federal grant or contract program, and whether or not it had set up any service projects utilizing Labor Department funds directly or indirectly.

This information was asked to be sent on any of the above since January 1981. Counsel was authorized to respond for Mr. Green, as I understand it, and also Ms. Herman, and replied unequivocally in the negative. Is that correct?

Mr. GREEN. That is correct, Senator. We read your letter of June 23 to ask three questions: One, whether Green-Herman had contracts or grants with the Department of Labor either as a prime or sub under the funds authorized by CETA; or, two, whether Green-Herman had received any funds either as a prime or sub under any and all the Federal grant or contract programs, including social security, SBA, Department of Education; or whether Green-Herman set up any service projects that pertained to Labor Department funds, directly or indirectly.

Senator, we indicated that there were none of those. Subsequently, we understood that you were including local jurisdictions in that and upon my discussion with your counsel, we indicated full disclosure of the Mobile contract and of any other contract that we had regarding that.

The CHAIRMAN. You mean after you received the letter and I received back a response from your counsel. Is that correct?

You can answer too, counsel.

Mr. WASHINGTON. Yes. My name is Bob Washington, Mr. Chairman.

I guess it is a function of our construing your letter, Mr. Chairman. We read your letter to mean whether or not Green-Herman had any contracts with the Department of Labor with funds authorized under the CETA act, and our respective response was that there were no contracts. We did not read the Mobile contract as coming within the contemplation of that question.

However, when we met with your staff and we had further illumination and further edification, we disclosed that that was that relationship. Therefore, if anything is true, Mr. Chairman, it was his counsel's opinion as to the import of your letter, and as soon as we understood what you were seeking we think we forthwith came with full and complete information.

However, let me hastily add, Mr. Chairman, I trust your comments are not implying directly or indirectly any improper conduct on the part of Green-Herman by virtue of this contract. I assume your question relates to whether or not our letter was responsive to your inquiry.

The CHAIRMAN. My counsel tells me that the first time that you responded to tell him about Mobile was last Thursday. Is that correct?

Mr. WASHINGTON. That is the first time we had a meeting with your staff. That is correct, Mr. Chairman, but again, I——

The CHAIRMAN. That was by way of acknowledgment at that time.

Mr. WASHINGTON. Well, Mr. Chairman, I am perplexed. I am not sure that I understand the nature of your question. Is your question as to the propriety of the contract or is your question as to whether or not we responded to your letter in great detail?

The CHAIRMAN. Let me make it clear. I think the letter speaks for itself.

Mr. Green, let me ask you this: The letter says—and it is dated June 23, 1981:

> The Committee on Labor and Human Resources is currently conducting an oversight inquiry into Labor Department Contracts and Grants let under the Comprehensive Employment and Training Act since June 30, 1980. To assist us in this inquiry, I would appreciate your providing the committee a list of any and all contracts, subcontracts, grants, or subgrants that your firm has received since its incorporation in January 1981. Where subcontracts or subgrants are involved, please specify the prime contractor or prime grantee. Also specify the date that contracts or subcontracts, grants or subgrants were received, and list the dollar amount of each. In addition, please provide the committee with an accounting of all funds received from prime or subcontractors under any and all other Federal grant or contract programs, that is, Social Security, Small Business Administration, Department of Education, et al. If your firm has set up any service projects utilizing Labor Department funds directly or indirectly, please specify. I hope to receive your response by the close of business Thursday, July 2. Any inquiry regarding this request should be directed to Mr. Dan Gill of the committee staff at 224-9285. Your cooperation is greatly appreciated.

Signed by me.

On July 2, 1981, we did get back; I take it it was your letter—Mr. Christian's letter—wherein you state:

> As counsel for Green-Herman and Associates, Inc., Green-Herman, we are authorized to respond to your letter request to Green-Herman asking that the Committee on Labor and Human Resources be provided with, one, a list of any and all contracts, subcontracts, grants, or subgrants that the firm has received since its incorporation in January 1981 from the U.S. Department of Labor under the Comprehensive Employment and Training Act; two, an accounting of all funds received

from prime or subcontractors under any and all other Federal grant or contract programs; and, three, an enumeration of any service projects utilizing Labor Department funds directly or indirectly. Green-Herman is most willing to be of whatever assistance it can to the committee as it conducts an oversight inquiry into the Labor Department's letting of contracts under the Comprehensive Employment and Training Act. In keeping with this willingness, Green-Herman has conducted a thorough review of all its contractual undertakings since January 1981 and can state unequivocally that, one, it has not received any contracts, subcontracts, grants, or subgrants from the U.S. Department of Labor under the Comprehensive Employment and Training Act; two, it has not received any funds from prime or subcontractors under any other Federal grant or contract program; and, three, it has not set up any service projects utilizing Labor Department funds, directly or indirectly. We trust that the foregoing is responsive to your request. Green-Herman will gladly provide any additional appropriate information that the committee might require. If you or your staff have any further questions regarding any aspect of this matter, please contact me.

Now Mr. Green, at that time did you have the understanding that we were just talking about local programs or the CETA programs?

Mr. GREEN. That was exactly my understanding and on the advice of counsel, this is the response that we put forward. As I indicated, Senator, when we met with your staff we were fully willing to disclose any and all contracts that we had and did do that in our discussion with them.

The CHAIRMAN. That was last Thursday.

Mr. GREEN. That was the first time I met with your staff.

The CHAIRMAN. I see. What you are saying is, at the time this letter was written you knew of the Mobile contract then.

Mr. GREEN. Certainly we knew of the Mobile contract.

The CHAIRMAN. You were performing pursuant to the Mobile contract.

Mr. GREEN. We did not attempt to hide it, and think that we know that that contract does not violate any law.

The CHAIRMAN. Is Mobile a prime contractor under CETA? I take it you were familiar with the Mobile contract as well.

Mr. GREEN. The Mobile contract, Senator, is a closeout that was approved by the present administration in phasing out the program. One has to do with placement of the PSE participants; the other has to do with audits and inventory and other closeout. It was with Mel Harris & Associates of Crystal, Minn., that we did the work.

The CHAIRMAN. How long have you known Mr. Harris & Associates?

Mr. GREEN. I suppose I met him some time this year, and did not know him before.

The CHAIRMAN. I see. I am correct, though, that they were at that time a prime sponsor for CETA located in Mobile, Ala.?

Mr. GREEN. The Mobile Consortium; yes.

The CHAIRMAN. OK. When you were Assistant Secretary of Labor, were you aware that this organization had a large contract under CETA?

Mr. GREEN. No, I was not.

The CHAIRMAN. OK. Does Mr. Harris, or did he at the time have subcontracts with CETA prime contractors?

Mr. GREEN. I have no knowledge of it, sir.

The CHAIRMAN. You did not know that?

Mr. GREEN. No.

The CHAIRMAN. You did not know whether he had a contract with Mobile County Consortium——

Mr. GREEN. No; I did not know that.

The CHAIRMAN [continuing]. When you entered into this agreement with him?

Mr. GREEN. When we entered into the agreement with him there was a discussion about the contract and performing those services, sure, in April.

The CHAIRMAN. Therefore, you knew about it, then, in April.

Mr. GREEN. Yes, on April 3, 1981.

The CHAIRMAN. OK. You are saying that the work you did pursuant to this contract was closeout work to assist the Mel Harris & Associates group in the administrative and closeout technical assistance for the Mobile County Consortium. Is that right?

Mr. GREEN. That is true.

The CHAIRMAN. OK. The amount of your contract with Mel Harris & Associates, as I understand it, was $75,000.

Mr. GREEN. That is correct. The document reflects that. It is broken into two parts. One is that personnel cost, and then fixed cost of $11,930.

The CHAIRMAN. I see. For a total of $75,000?

Mr. GREEN. Yes, sir, that is true.

The CHAIRMAN. OK. We would put a copy of the contract in the record at this point, without objection.

[NOTE.—The material referred to appeared earlier in the record and may be found on p. 37.]

The CHAIRMAN. As I see it, then, Green-Herman, Inc., filed incorporation records on January 20, 1981. On June 24 you were officially asked by the committee to identify all contracts, subcontracts, directly and indirectly, with the Labor Department or any other Federal grant or subcontract program. On July 2 your attorneys write back stating unequivocally that you have not engaged in any contractual undertakings described in the June 24, 1981 letter.

Mr. WASHINGTON. Mr. Chairman?

The CHAIRMAN. Yes, sir?

Mr. WASHINGTON. Respectfully, there are three separate questions you are asking. The question of direct and indirect only relates to No. 3? Respectfully, may I read No. 3? "Any enumeration of any service projects utilizing Labor Department funds directly or indirectly."

I think it important to state and to emphasize that in responding to your inquiry, we in no wise sought to foreclose or not to disclose information to this committee. Again, let me reiterate, at the earliest possible time when your staff indicated to us what in fact the committee sought, we disclosed the information.

Clearly, I trust you are not suggesting or intimating that this contract relationship violates any Federal act or conflict of interest.

The CHAIRMAN. Well, it does bother us that on April 3——

Mr. WASHINGTON. However, to "bother"and to violate a law—I mean, I just want the record to be clear.

The CHAIRMAN. All we are trying to do, Counsel, is of course go into this and resolve the problem, hopefully.

Mr. WASHINGTON. There have been so many intimations, Mr. Chairman—we are very concerned about reputations here—sort of intimations of relationships. So long as the committee takes the view that Mr. Green or Green-Herman has not violated any law——

The CHAIRMAN. We do not take any view on this. I think that is up to other people to take any contrary views. All the committee is saying is that on April 3, approximately 3 or 4 months before we received the letter from you, Green-Herman entered into a contract recognizing that they knew about the Mobile County Consortium.

Mr. WASHINGTON. Our letter was dated July 2, Mr. Chairman.

The CHAIRMAN. That is what I am saying.

Mr. WASHINGTON. We responded——

The CHAIRMAN. I am talking about the April 3 contract between Green-Herman and, of course, Mel Harris & Associates, Inc., which is now made part of the record, fully known a number of months before your letter came to us which was unequivocal in its assertion.

Now, Mr. Green, let me return to the period of time after the election and through January 19, 1981. Testimony today in considerable—and I have to admit, I do not know that anybody should be able to criticize because of newspaper articles—but considerable newspaper articles revealed that you and Mr. Godwin authorized many contracts involving millions of dollars, in fact, in CETA title III discretionary funds.

Not only was the $137 million available overcommitted but the planned $165 million in title IV in the youth project funds had also been overcommitted, according to witnesses here, for a total of $42 million in both funds. Is that true?

Mr. GREEN. No, that is not true. We did not overcommit the funds.

The CHAIRMAN. You are saying there was no overcommitment of funds?

Mr. GREEN. I certainly am, sir.

I think, Senator, the important item, and the GAO report points it out, that the funding plan is a document, an administrative document that is subject to change and it has changed. I think the present Assistant Secretary for ETA will even indicate that. The plan, against the authority and the final authorization, if you go back to my testimony, indicates that of some $9 million in contracts that were approved on the 19th, it only authorized those contractors to spend less than half of that money.

We certainly were aware of that and attempted to make certain that any and all of these awards would follow good procedures and good policy.

The CHAIRMAN. Then you basically disagree with the GAO, then, and I guess Mr. Angrisani himself, that you would have been over $42 million.

Mr. GREEN. I certainly do, not being available to review those funds and to look at their records.

The CHAIRMAN. Well, perhaps they should make those available to you.

Mr. GREEN. I would certainly hope so, sir.

The CHAIRMAN. If you need that done, we will certainly see that that is made available to you.

Now it was also in these articles—at least as I recall—it is alleged that you made statements that these last-minute contracts were awarded for philosophical reasons. Is that correct?

Mr. GREEN. I am sure you are aware, Senator, that the press does not give you full quote. In fact, the item that I said was——

The CHAIRMAN. Sometimes they give us too full quotes, you know.

Mr. GREEN. Well, as I remember that line, it was only about one line. It did not finish the entire sentence. I indicated that these contracts were ones that had been in negotiation for some time. I think the record will show that many of them go back to the summer of 1980 and had been in active negotiations with the Department; and, second, that many of these contracts did go in a direction that the previous administration had focused its employment policy, in a targeted manner, on economically disadvantaged. For that reason, these were ones that I certainly wanted to see that I fulfilled my obligation and my duty.

The CHAIRMAN. I see. On these contracts, did you know many of these people personally, to whom you——

Mr. GREEN. Some of them I knew; some of them I did not.

The CHAIRMAN. Is it true that on January 19, 1981, as has been testified to earlier, that you appeared early in the day with Ms. Herman at the ETA offices in the Patrick Henry Building in Washington, D.C., in order to sign as many contracts as possible before your tenure came to an end?

Mr. GREEN. That is not true in that characterization. As you are aware, the Department of Labor is organized into two physical structures, at least ETA and the Department of Labor. The Patrick Henry Building, in which the Assistant Secretary for Employment and Training Administration has responsibility, is approximately 5 blocks from the main Labor building. Many times in my tenure in ETA I did go over to the Patrick Henry Building.

The CHAIRMAN. However, is it true you showed up on that day to sign contracts?

Mr. GREEN. No, that is not true. I did not show up that day to sign contracts.

The CHAIRMAN. Did you in fact sign a number of contracts that day?

Mr. GREEN. No, I did not sign contracts, Senator.

The CHAIRMAN. Therefore, you are saying that some of these witnesses who saw you or said that you did are not telling the truth.

Mr. GREEN. I would definitely say that, yes.

The CHAIRMAN. OK. Did you take into consideration that in many instances the staff—and some of them have been here today—did not believe that many of these contracts should have been authorized? Were you aware of that?

Mr. GREEN. I would say that any Federal official, political appointee, would probably have differences of opinion with the regular Federal staff, and I am sure that there are many things that some of them would have had differences of opinion. I do not think

that that in any way precludes the elected administration in proceeding ahead with their program and philosophy.

The CHAIRMAN. Do you know how many contracts you in fact did sign over that last 4-month period, and maybe break it down over the last 4 months and then the last month? Do you have any idea?

Mr. GREEN. The number of contracts, no, I do not.

The CHAIRMAN. Was it a significant number?

Mr. GREEN. No, I would say it was not a particularly significant number. We had in ETA, Senator, some 800-odd contracts and grants between title III and title IV, and I cannot remember the numbers but it is a large number of contractors and grantees that we have or did have in title III and title IV.

The CHAIRMAN. Therefore, you are saying on these last 3 or 4 months, during that period of time you actually did not sign a lot of contracts.

Mr. GREEN. No more than I did over my period of 4 years in the administration.

The CHAIRMAN. Now how many, do you have any idea approximately how many contracts you signed on the last few days, say the last week?

Mr. GREEN. Senator, I did not sign the contracts.

The CHAIRMAN. Or approve.

Mr. GREEN. If the issue that you are speaking to are the administrative telegrams that the GAO report outlines, I have the document in front of me but I did not sign the contracts.

The CHAIRMAN. Let's use the term "approved" either personally by you or by your steering committee.

Mr. GREEN. Certainly. All contracts had to be approved by the steering committee.

The CHAIRMAN. Could you give us some illustration of how many of those were approved in the last, say, couple of weeks of your tenure as Assistant Secretary?

Mr. GREEN. I do not have the exact number, and I would be happy to submit it for the record, go back and count them.

The CHAIRMAN. We will be happy to have you do that.

As we had testified to earlier in the day, a party was held apparently beginning at 10 a.m. on your last day in office, with food, drinks, and of course we were told that there were a number of contractors who had been alerted to come to the Patrick Henry Building. As I understand it, the staff did put on the party, brought the food, drinks, and arranged for the music. Do you know how many people were waiting in the outer office to be consulted on contracts that day?

Mr. GREEN. No, I do not. I would just say that there were lots of parties during the last days of the administration, I am sure, throughout Government. It is not unusual.

The CHAIRMAN. Were you aware that some of the contractors actually stood in line to line up for their contracts, and to be seen that day, and to get these matters resolved?

Mr. GREEN. No, I am not aware that they stood in line or that they were standing in line.

The CHAIRMAN. OK. According to the GAO report, an award was given to the National Association for the Southern Poor in the

amount of $150,000 by telegram on January 5, 1981. Is that right, or are you aware of that?

Mr. GREEN. I am not aware of the preciseness of it but if GAO says it, I am sure they have accurate documentation to that effect.

The CHAIRMAN. Well, the GAO report states that the award was made at your insistence despite the staff recommendation that it should not be made. Are you familiar with that?

Mr. GREEN. No, I did not speak or do not have any idea of speaking to any staff on that particular contract.

The CHAIRMAN. The GAO report also states that because of the history of poor performance and limited prospects for improvement, the award was rescinded on March 31, 1981, after you left. Are you aware of that?

Mr. GREEN. No, I was not aware of that.

The CHAIRMAN. Are you aware now, I mean?

Mr. GREEN. I am, since you have told me.

The CHAIRMAN. OK. Did you also read or hear that because the telegram sent to the awardee represented a contractual obligation, it actually cost the taxpayers around $27,000 to close out the deal? Is today the first time you have heard that?

Mr. GREEN. Yes, it is.

The CHAIRMAN. OK. I guess that is because the awardee has to be compensated for whatever work he did do if they terminate him.

Mr. GREEN. I am not aware of the process, sir.

The CHAIRMAN. Mr. Green, the GAO report identified 70 telegrams sent during the first 4 months of fiscal year 1981. Of these telegrams, eighteen were for awards to be administered by the Office of National Programs totaling an estimated $15.3 million, and 34 were for awards to be administered by the Office of Youth Programs totaling an estimated $14.6 million. Were you aware of that?

Mr. GREEN. I, again as I indicated, have not seen GAO's figures or how they arrived at it, and only after checking them would I agree with that, Senator.

The CHAIRMAN. OK. As the Assistant Secretary for the Employment and Training Administration, did you authorize those telegrams, either directly or indirectly?

Mr. GREEN. As I indicated, these telegrams were a process that we used to inform the grantees of their award. Some of them, I am sure that my office, which had the authority, did authorize. They were all part of the approval process of the Secretary's committee and had been reviewed by that committee.

The CHAIRMAN. Mr. Green, the professional staff has been told that during the period after the election you in fact took charge of the steering committee in order to expedite new contracts or grants, or to renew and/or modify them, and we have had some illusions to that through staff testimony here today. Was that true, or is that false?

Mr. GREEN. Senator, I suppose anybody that is in Federal Government, the utilization of discretionary funds is the great battle. If I had ever had the opportunity to have unilaterally that control, I am sure there would have been a revolt in the building. No, I did not at any time, and whoever made the statement was not forthcoming with the total truth.

The CHAIRMAN. Well, did that committee keep any records or significant records concerning the actions of the committee? Do you know if it identified those who attended the meetings? Do you know if it maintained operating procedures detailing how the committee was supposed to carry out its responsibilities, kept records of how decisions were made, and did it keep records of proceedings rather than destroy handwritten minutes? Did you have any records kept for that particular committee?

Mr. GREEN. The committee, as I indicated in the testimony, Senator, was set by Secretary Marshall, and that determined—there is a memo to that effect determining its operation and its composition.

The CHAIRMAN. I see. However, did you keep any records during the time that the committee met?

Mr. GREEN. I was not the secretary of the committee and I am not aware of them, do not have them, do not know where they are.

The CHAIRMAN. Did you direct that anybody keep those records, since you were clearly the chairman of the Steering Committee?

Mr. GREEN. I was not the chairman of the Steering Committee.

The CHAIRMAN. OK. I stand corrected on that. However, you were on the Steering Committee.

Mr. GREEN. I indicated that in the testimony, sir.

The CHAIRMAN. OK. You say on page 5 of your statement that you want to emphasize that no contracts or grants were made without committee review and approval. Do we have any records to complete our oversight responsibilities that assure these grants or contracts were adequately and justifiably approved? You know, with the void, if we do not have these records mentioned by GAO, we have nothing to go on other than what you are telling us here today.

Mr. GREEN. Senator, I was not the chairman nor the secretary of the committee, merely a member.

The CHAIRMAN. However, you did say that no contracts or grants were made without committee review and approval.

Mr. GREEN. That is true.

The CHAIRMAN. Were there any documents that indicated that approval was granted?

Mr. GREEN. Once they were, yes. As I indicated also in the testimony, my memo of October 1979 I think sets out a procedure that we used for review of them. It is to the Executive Council, it is dated October 1, 1979, and it is called "New procedures for developing and executing the funding plan for special national programs and activities under CETA title III." It has basically a 5-step process and it outlines the procedure.

The CHAIRMAN. Apparently the Steering Committee, at least on page 11 of the GAO statement, the role of the Steering Committee was to approve or disapprove awards and the GAO indicated that they took the responsibility for crossing the T's and dotting the I's. Now if the Steering Committee mechanism was supposed to substitute for normal Government award procedures, then should not its own internal records and the Department of Labor's reflect that, and have some documents to justify the awarding of all of these grants and contracts?

Mr. GREEN. Senator, I answered earlier that——

The CHAIRMAN. You do not know.

Mr. GREEN. I was not the secretary nor the chairman of it, and that is the answer.

Senator KENNEDY. Would the Chair just yield for a question?

The CHAIRMAN. I would be happy to yield.

Senator KENNEDY. I would like to find out whether the committee staff interrogated the members of the Steering Committee. It seems we are asking one of the members of the committee for all of his information. I would just like to find out whether the staff interrogated the members of the Steering Committee, and if they did, did we get information? It might help us all to understand the responses of the witness.

The CHAIRMAN. The staff informs me that the only one who did not respond to the GAO report, which the staff relies on——

Senator KENNEDY. That was not my question.

The CHAIRMAN. Well, the answer is no because the staff relied on the GAO report, which interviewed everybody on the committee except——

Senator KENNEDY. However, the staff itself did not interview—

The CHAIRMAN. That is correct.

Senator KENNEDY.—In this investigation, the members of the Steering Committee.

The CHAIRMAN. As I stated in my opening statement, we relied on the GAO report. If it is wrong, we want to have it pointed out where it is wrong and we will be very pleased to have it pointed out.

I do find a little bit of difficulty in having a committee that meets regarding millions and millions of dollars that does not keep any records on why they make these grants and contracts.

Senator KENNEDY. Well, I do too but I would think that we would either get the members of the Steering Committee up here and interrogate them or get Ray Marshall up here and interrogate him——

The CHAIRMAN. Well, it may be——

Senator KENNEDY. I mean, if that is the purpose of this.

The CHAIRMAN. I am just trying to find out what the procedures were and what the Steering Committee did. We have had some allegations that Mr. Green actually, in fact, basically took over the committee at the last minute and gave these contracts or grants out. Now whether that is true or not, I am not intending to judge you, Mr. Green. I just want to get the facts, and you say that you do not know of any records.

Mr. GREEN. I would be happy to help us reach the facts, and those allegations are untrue.

The CHAIRMAN. However, you do not know of any records, in other words, from the Steering Committee.

Mr. GREEN. Senator, as I indicated I was not the secretary nor the chairman of it. I am sure there were records because there was a great deal of activity during the course of the 4 years with the committee.

The CHAIRMAN. Senator Kennedy? I may have a few other questions after you.

Senator KENNEDY. I welcome the fact that the issue of the misunderstanding between the committee's request and the witness

has been cleared up. I think it is important to understand that it was cleared up before the time of this hearing. As one of the principal authors of the Freedom of Information Act, it is certainly clear that any information with regard to contracts could have been obtained either by members of this committee, by interested Members of the Congress, or by individual members. These matters are public documents and I think that that is important, that we understand that right from the beginning.

I suppose there are really two areas that I would like to get into here with you, Mr. Green: that is on the nature of the authority, whether you really had that authority for the disposition of these contracts, and the kind of review that you made of them; and second, what has been I think at least implied here, and I think it is important for the record, whether you knowingly granted any contracts at any time with the idea that some time down the way that you would get some kind of remuneration of it. That is at least what I gathered in terms of some of the questions. I would like to just address really those two areas and then I will conclude.

You are satisfied that you had authority for all the action that you took during those months?

Mr. GREEN. Yes, sir; I am.

Senator KENNEDY. Do you think that all the telegrams that went out during those final few days were justified? You talked about that in your formal statement but——

Mr. GREEN. I indicate that, Senator, and also that there were negotiations and documentation that had begun, many of these, in the summer of 1980; that they had been in long discussion with staff pursuing it, so that I am satisfied with that. Yes, sir.

Senator KENNEDY. What about the award to the Southern Vocational College? Was that a prudent one in view of the Inspector General's assessment, did you think?

Mr. GREEN. I think that there is subsequent documentation from the Associate Inspector General for the Department that reviewed that, and in light of that, I think it was. I think that the record will show that program, which was one of our rural initiatives assisting farmworkers and farmworker children, dependents, in gaining education, that it was a prudent program. If it was not, we would not have recommended it being continued.

Senator KENNEDY. Now the GAO report indicates that you insisted that the award to the National Association for Southern Poor be made. In your own mind, was that a good and worthwhile award?

Mr. GREEN. Senator, I am not even aware of the program, the National Association of Southern Poor. I think it was again another rural initiative under our youth plan, both with a mandate from the legislation to work on, but I did not have personal involvement in that. That is a misrepresentation of my involvement with it.

Senator KENNEDY. What about the area of the potential conflict of interest? That has been suggested by different questionings during the course of this hearing. What do you or your attorney say about any of the implications that you might have been granting awards with the idea that some time down the road that you may be getting some benefit from it? I think it is important that

we just give you an opportunity to speak to that issue so it is a part of this record.

Mr. GREEN. Well, for the record that was never an issue. None of the contracts that I was involved with, did I see them as a future place of doing business or that it was a quid pro quo in that arrangement.

Senator KENNEDY. Let me just ask finally, you have been here during the course of the hearing earlier today: Can you tell us what you think about the awards singled out here today as a fair reflection of the CETA awards program over the period of your responsibility?

Mr. GREEN. There is a strange approach to sampling that GAO has done on these awards. If one goes through them, they even seem to have a particular bias in terms of color and who they are serving.

A second point is that the Department, Assistant Secretary Angrisani are presently involved in, a continuing resolution presently. The whole system has come to a screeching halt. I just found out earlier today that they had issued some 55 telegrams to farmworker contractors and then had to rescind those telegrams and cancel the awards.

Therefore, I think that where we are going—and when one looks at unemployment—we are reaching a point of absolute chaos. I disagree with the characterization of exceptional management.

The CHAIRMAN. Mr. Green, why would the GAO single you out for such unfair treatment? According to you, they treated you unfairly. Why would they do that? What reason would they have to pick on you?

Mr. GREEN. That is a good question. When you look at the number of people invited to the hearing, and the number of participants in decisionmaking, I have raised that many times in my head. I do not have an answer, Senator.

The CHAIRMAN. I see. However, you feel that the GAO has treated you improperly here in their investigation and in their conclusions. I guess I could add to that, the Washington Post as well.

Mr. GREEN. Their conclusions and my agreement with them, certainly, as I indicated in the statement, there is a disagreement. Their approach I also disagree with and I am at question to understand how they arrived at it, Senator.

The CHAIRMAN. I see. Now that you understand what my letter to you meant, that your attorney responded to, that we were asking about any and all contracts, direct or indirect, from any Government source, are there any other contracts other than the Mobile, Ala., Consortium contract?

Mr. GREEN. Are there other contracts?

The CHAIRMAN. That you took——

Mr. GREEN. Through CETA? No, there are not.

The CHAIRMAN [continuing]. Or through any other Government agency?

Mr. GREEN. No.

The CHAIRMAN. Any other Government source, directly or indirectly?

Mr. GREEN. No, that is not true.

The CHAIRMAN. Well, is it true or not? Are there any others?

Mr. GREEN. Any other Government sources? No, sir.

Senator KENNEDY. If the chairman would yield, in fairness to the witness, the witness was not singled out in that GAO report. I mean, the procedures and certain contracts that were let during that period of time, there were questions that were raised about it and there were allegations and various matters that were raised during that period of time.

The reason that these issues were raised is because the chairman asked the GAO to investigate this kind of area. I mean, I have asked the GAO to look into a lot of different programs—the efficiency and effectiveness of the refugee programs—and then for me to come up and say to some witnesses that are involved in the refugee program, "Why were you singled out after I requested such a program?" seems to me to be somewhat mystifying. [Laughter.]

The CHAIRMAN. Do you know Mr. Anderson, who apparently was the contract represenative for the contractee, the National Association of Southern Poor?

Mr. GREEN. No, sir, I do not.

The CHAIRMAN. Did you know anybody associated with that organization?

Mr. GREEN. No, I do not.

The CHAIRMAN. Before or since?

Mr. GREEN. No.

The CHAIRMAN. OK, Mr. Green, thank you. We appreciate your being here.

Mr. GREEN. Thank you very much, Senator.

[The prepared statement of Mr. Green follows:]

STATEMENT OF ERNEST G. GREEN BEFORE THE COMMITTEE ON LABOR AND HUMAN RESOURCES, UNITED STATES SENATE

October 20, 1981

Mr. Chairman and Members of the Committee:

At your Committee's invitation, I am happy to be here today to present testimony regarding the administration of the CETA Program during my tenure as Assistant Secretary for Employment and Training within the U. S. Department of Labor. I was appointed to that post by President Carter in March, 1977, and served until January 20, 1981.

It is my understanding that one of the catalysts for your Committee's inquiry into this area was a flurry of recent press reports raising questions about the process by which CETA contracts and grants were awarded during the last months of the Carter Administration. Further, it is my understanding that the Committee, pursuant to its authority and in response to the press reports, requested the General Accounting Office to conduct an investigation, which has been reported in two studies (HRD-81-111 and HRD-81-145). These reports closely scrutinize a number of awards made during that period using CETA Titles III and IV discretionary funds. While reviewing some of the same questions raised in the press reports, the GAO

reports seem to refine the issues that appear to be of interest to this Committee.

Because of my own role in the Department of Labor's employment and training policies, I am delighted to have the opportunity to directly address any criticisms of the manner in which these programs were administered during my tenure in public office. Hearings such as these are a sound mechanism for airing any questions which the public may have about the administration of large federal programs and laying such questions to rest. I am especially pleased to participate in these hearings because of my belief that the actions of the past Administration, particularly with regard to CETA, will stand up to close public scrutiny and because of my desire to remove any cloud that recent reports may have placed on the merits of CETA itself.

Before responding to specific questions that the Committee may have, I would like to address in a general fashion issues raised in the GAO report and by the press concerning my administration of Titles III and IV discretionary funds during the last four months of the Carter Administration.

It has been suggested by some and implied in the media

that I and other Department officials responsible for making the determination on CETA awards proceeded--after November 4--to dispense federal monies to our political friends with wild abandon, knowing that soon we would not be able to help them. One report goes so far as to quote a person as saying that while the activities were not illegal, they were "unethical". In our view the GAO reports discredit the notion that one or a few individuals possessed unfettered power to dispense grants in this fashion or that they actually did so.

In reality, the awards made during the transition period were not only in complete accord with the law, but they were the product of careful review and scrutiny under a comprehensive system of checks and balances established within the Department. These rigorous new procedures were first voluntarily instituted by the Carter Administration and Secretary Marshall as an added safeguard to insure sound administration and management of CETA. In other words, the awards in question were subject to the same process of thorough review that others made before November 4 were subjected to. Although the monies were discretionary, the awards were certainly not made arbitrarily.

I think that it is important to restate for the

Committee the approval process which preceded the granting of non-competitive awards.

First, the Procurement Review Board had primary responsibility for approving a proposed non-competitive contract involving $10,000 or more. This Board was chaired by the Assistant Secretary for Administration and Management and included others in the Department, but members of Employment Training Administration were excluded from serving on that Board.

Certain Office of National Programs awards under Title III were exempted from the Review Board's consideration. Proposals in this category consisted of those made by community based organizations with "demonstrated effectiveness" in the delivery of employment and training services. A number of Office of Youth Programs discretionary funding awards under Title IV were also in this excepted category. These so-called demonstration program awards required, however, the specific approval of the Secretary's Steering Committee established by a memorandum issued by Secretary Marshall. The Secretary's Committee consisted of five individuals: The Executive Assistant and Counsellor to the Secretary, Paul Jensen, the Deputy Undersecretary for Legislation and Intergovernmental

Relations, Nick Edes, myself, my deputy, Charles Knapp, who was also serving as Special Assistant to the Secretary, and Lamond Godwin, Administrator of the Office of National Programs. Thus, discretionary Titles III and IV funds which did not have to be approved by the Review Board, nevertheless had to be approved by the Secretary's Steering Committee.

In short, all awards treated in the GAO report were specifically authorized by committee review and neither I nor anybody on my staff had the authority to unilaterally approve a discretionary fund award or modification of an award. I want to emphasize that no contracts or grants were made without committee review and approval.

It is important to recognize that award proposals submitted for review under the process I have just described had to also fit within the carefully developed funding plans for Titles III and IV discretionary funds. During my tenure, I set forth written procedures for developing and executing such plans. For the record, I would like to submit a copy of a memorandum dated October 2, 1979 from me to the ETA Executive Concil as an illustration of the budget review procedures implemented. As the result of these procedures, funding requests from various offices would be carefully considered and

reviewed by the Executive Council I created, whose members included, among others, Charles Knapp, Robert Jones, the Director of the Office of Assistance, and Lamond Godwin. It was only after this body's consideration that a plan was sent forward to the Secretary for his consideration and approval. Thus, the funding perameters were very carefully and clearly established, in accordance with Congressional authorizations, prior to reviewing specific award applications.

The GAO reports identify a total of 4 awards made under Title III that were "not in" the ONP Funding Plan and 18 made under Title IV that were "not in" the OYP Funding Plan. As the reports indicate, there is no legal issue with respect to funding unplanned awards. On the contrary, the 1978 CETA Reauthorization Act contemplates that the Assistant Secretary for Employment Training will have to make readjustments in the funding and authorizes him to do so. However, even in those instances where I determined that a readjustment would be necessary, the decision was reached only on the basis of review and approval by the Secretary's Steering Committee. I wish to note that the GAO report (HRD-81-145 exhibits C and D) overstates the number of awards made which were not part of the funding plans. Two of the awards (Community Services and Pacifica Services) under Title III and 3 of the awards under

Title IV (Delta Sigma Theta Sorority, University of the District of Columbia and Dr. Benson Penick) were line items in a legislative budget whose funding, by definition was contemplated.

A primary focus of the GAO report concerns the number of telegrams that were sent to contractors and grantees in the last months of the Carter Administration authorizing the use of funds. Telegrams sent out on January 19, 1981 -- the last full day of the Carter Administration -- appear to have elicited a special degree of skeptism (a total of 25).

There is, of course, no question raised about the propriety of Labor Department Officials doing business in this fashion. The authorization to incur costs pending finalization of a contract is a long standing Labor Department practice intended to avoid unnecessary delays in the startup or continuation of grants and contracts that have already been approved as to the awardee and the amount by the process I previously described. In no case could the sending of a telegram represent the unilateral decision of the individual signing the telegram to authorize the addressee to incur costs. The transmission of a telegram was essentially a ministerial function providing immediate notification to a contractor or

grantee to begin performance on the award pursuant to the Labor Department's prior approval at higher levels. In most instances, an awardee's application had been under consideration at the Department for some time. However, the negotiation process had been completed; only formal execution of the contract remained to be done. This was a stage which, generally speaking, I did not get involved in.

The Committee asked the GAO to make a comparison between the number of telegrams sent in January, 1981, with the total numbers sent during a "normal" period of operation. Although GAO's data does not allow a valid comparison, the report indicates that there were more telegrams sent during the first nineteen days of 1981 than in all of FY 1979. However, even if there was a higher degree of telegram activity in the final days of the Carter Administration, the reason for its existence is clear. It was due to the tremendous time pressures we were operating under during the final period of the outgoing Administration. During the period immediately following October 1, the beginning of the new fiscal year, the Department was operating under a continuing resolution and without any clear picutre of the total amounts that would be authorized for programs. In keeping with this state of affairs, there was no commitment of Titles III and Title IV monies until the exact

authorizations became known. It was also difficult to convene the review boards because of the unavailability of its members during this period and awards could not be approved without their review. The end result was that there was a significant backlog of pending applications which were subsequently considered in the normal course of business and disposed of in accordance with established procedures. The number of telegrams were symptomatic of breaking the bottleneck after review procedures had been complied with. This activity was, of course, in keeping with President Carter's directive to the Departments and agencies to continue rendering services to the American people during the transition period, up until the last day of his Administration.

I would like to submit, for the record, a table analyzing the nature of the contracts with respect to which telegrams were sent out on the 19th. The summary of this analysis shows that although the contracts involve a total of $9.287 million dollars, only $4.441 million dollars (47.5% of the contract awards) were authorized to be spent by the telegram addressees.

Many of the press reports have suggested that the activity of the Department resulted in over-commitment of

funds and corresponding Anti-deficiency Act violations. As we understand the GAO reports, no such over-commitments in either Title III or Title IV discretionary funds have been found to exist. The GAO report (HRD - 81-145) indicates that of available funding of $156.1 million under FY 1981 Title III monies, only $51.2 million had been obligated as of January 30, 1981. Of a total funding plan of $201.3 million under Title IV, only $52.2 million had been obligated. I must express my own personal disappointment at finding out that less than one-third of the total funds available for FY 1981 were actually obligated and that even those amounts have been reduced by the current Administration in seeking close-out or terminations on the theory that funds had been over-committed.

As a former administrator of CETA programs, I fully appreciate the value of the outside inspection by the GAO. Although I disagree with some of its conclusions, I believe that the reports also contain valuable insights that provide a basis for improved management of Titles III and IV discretionary funds.

Before turning to the questioning, I want to express my own personal conviction of the need for federal employment training programs. It is with personal frustration and deep

regret that I and others concerned about public job programs witness the retrenchment being made. Ironically, these cuts are being made at a time when a broad range of improvements in CETA, supported by former Secretary Marshall and myself, are being effectively implemented. These improvements include tighter eligibility standards for public service jobs, tax credits and training subsidies for private employers of the "hard-core" unemployed, and more stringent monitoring and auditing programs. These improvements allowed CETA to focus more intensely on its original goal which was, in 1973, to provide jobs for the "hard-core" unemployed.

The Carter Administration was dedicated to the same commitment the previous two Republican Administrations had made to assist economically disadvantaged citizens in finding jobs that would lead to permanent employment and eventual self-sufficiency. A conscious effort was made by the Carter Administration to encourage the administration of CETA programs by individuals with backgrounds similar to the backgrounds of people CETA reached out to and assited.

Since 1973, CETA has provided job training and employment opportunities to hundreds of thousands of disadvantaged citizens all over the country. For most of these

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people, CETA provided the only opportunity to pull out of what would otherwise be a severe personal and economic crisis. It encourages people to help themselves by providing jobs, the opportunity to learn new skills, and needed incentives. CETA has been enormously successful in helping individuals dependent on general public assistance to work toward complete self-sufficiency. I know this last point is an objective which members of this Committee strongly support. Public jobs programs are critical to meeting this objective.

I would like to respectfully point out that the elimination of public job training programs would by no means save the government the total cost of the program. With each such cut, general public assistance expenses and unemployment benefits increase while social security and income taxes decrease. It is my understanding that if public job and training programs were completely eliminated as much as 25% of the savings to the goverment would be offset by the increase in public assistance expenses and a decrease in tax revenue. In my judgment there is no doubt about these propositions.

Employment and training legislation has served the useful purpose of identifying and providing a response to the problem of unemployment generally and the hard-core unemployed

in particular. It is ironic that at a time when economic conditions are deteriorating, especially those affecting the economically disadvantaged, the trend towards the elimination of salutary public programs of this type is even more strident. The Administration on Sunday acknowledged that the country is in a "slight recession." However, that sector of our economy which these programs target is in fact in a depression. I respectfully note that unemployment among Blacks is currently at the worst level (16.3%) in over 20 years.

I am proud of the role I have played in the field of employment and training in addressing the needs of those who are most in need - the unemployed, the underemployed, and the economically disadvantaged. I stand on my record of demonstrated commitment and capability.

The CHAIRMAN. Let's call Mr. Godwin at this time.

Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. GODWIN. I do.

The CHAIRMAN. Thank you, sir.

At this time we are happy to welcome Ron Brown back before the committee.

Mr. BROWN. Thank you very much.

The CHAIRMAN. We have a lot of respect for you. You are representing Mr. Godwin here today.

If you will introduce both counsel, we will appreciate it.

STATEMENT OF LAMOND GODWIN, FORMER DIRECTOR, OFFICE OF NATIONAL PROGRAMS, EMPLOYMENT AND TRAINING ADMINISTRATION, U.S. DEPARTMENT OF LABOR, ACCOMPANIED BY RON BROWN AND FLORENCE PRIOLEAU, PATTON BOGGS & BLOW

Mr. GODWIN. Thank you very much, Mr. Chairman, members of the committee. Accompanying me today are counsel in the person of Mr. Ron Brown and Ms. Florence Prioleau from Patton Boggs & Blow.

Mr. Chairman, I am, as you know, former Administrator of the Office of National Programs. I also served as a Special Assistant to the Secretary, and was one of two people in the Department who held that joint appointment.

Before I proceed, I would like to request that my entire written statement, oral remarks, and documents that I will present be included in the record.

The CHAIRMAN. Without objection, that will be done.

Mr. GODWIN. Thank you.

Now let me begin with a point that I will come back to several times in my testimony, and that is what I consider the inexcusable lack of veracity of the two recent reports GAO produced from its investigations of employment and training awards, grants, and contracts. Much of the committee's information has been obtained from these documents and I am convinced that these really are not credible reports.

In many instances the findings are based upon incomplete and erroneous information. In some cases information I know to be available through the Department that would have explained certain funding decisions was not reviewed. Otherwise, different conclusions would have been drawn from the investigations.

The committee should not ignore the fact that GAO conducted not 2 but 10 separate investigations of the Office of National Programs during the 3½-year period that I served as Administrator for this office. Indeed, ONP was investigated more frequently than any other office within the Department of Labor and perhaps within the entire executive branch of the Government.

We even requisitioned extra office space for the GAO staff, who spent as much time in our building as they did in the GAO building. Our work with them involved an enormous amount of our staff time and energy but in every single instance we cooperated with them, and we developed some close personal relationships with some of them. We served them coffee. [Laughter.]

Some of these GAO investigations that we went through were initiated for political reasons. For example, to give you a feel for how this office functions, I was visited by representatives from the entire congressional delegation of a particular State—if you would like to know the name, I will tell you—that wanted me to reverse a funding decision awarding a grant to a community-based organization. They wanted the grant to go to the State. I refused to bow to the political pressure, and was investigated. The investigation found no wrongdoing.

I want to stress to this committee that none of these investigations ever found any violation of Federal rules, regulations, or requirements. No internal departmental investigation—and there were some of those—ever found any violations of Federal rules, regulations, or requirements. I am very proud of this record.

That does not mean that the administration of the office was perfect. There certainly was room for improvement and there still is. In some instances the GAO recommendations and findings were useful to us in making improvements in the programs that we administered. In many instances, however, the recommendations were not useful because they were based on errors of fact or interpretation.

Usually the GAO gave me and other officials in the Department a chance to comment on their findings, to dispute their findings, and to challenge their recommendations, which we did very often. The two reports that are the subject of this hearing are exceptions to this general pattern of cooperation, constructive debate, and honest disagreement.

I want to point out that the GAO report, which was dated—August 28—was done over a period of several months, perhaps as long as a year. While that work was being done the GAO investigators were no more than 25 feet from my office, and yet they did not afford me the opportunity to dispute their findings, conclusions, or recommendations, despite the fact that I was readily available to cooperate with them, had many informal conversations with them about all kinds of subjects in the halls and at the coffee machine, and could have answered many of their questions.

Unlike the previous GAO investigations, these last two were conducted in a witch-hunt atmosphere. I have received reports from former staff of mine that they were asked to sign interviews. After their interviews were summarized by the GAO staff, they were asked to sign interview sheets. In one instance a staff person refused to sign one of these interview sheets because, two pages included in what was written by the GAO investigator, this person considered to be distorted and twisted, and so she demanded that those two pages be eliminated before she would sign the sheet.

Now in all of my interviews with the GAO in these 10 investigations, I was never asked to sign a document. I never had reason to question the professionalism of these investigators. Sometimes they did very good work.

Furthermore, I want this committee to know that I did not receive cooperation from the Department of Labor in gaining access to written documents that would have helped me prepare testimony for this committee. I filed a freedom of information request. It was not honored, and I was somewhat at a disadvantage

in going back to information relating to 1979. Nevertheless, in spite of all of these problems I welcome this opportunity to appear here today and to address the GAO reports and issues which your staff have indicated to me are important concerns of yours.

Let me focus on these specific allegations in the GAO reports.

The CHAIRMAN. Mr. Godwin, if I could interrupt you for one second, you indicated the Department of Labor did not offer to help you at all?

Mr. GODWIN. That is correct.

The CHAIRMAN. When did you request them to help you?

Mr. GODWIN. In this past week. I had contacted staff members by phone and I filed a formal freedom of information request.

The CHAIRMAN. This past week?

Mr. GODWIN. That is right.

The CHAIRMAN. How many days ago was that?

Mr. BROWN. It was filed about a week ago, Senator Hatch. We did have some informal assurances that in fact information and documents would be forthcoming. Once the formal request was filed, we were then informed that it was too complicated, complex, too difficult to find, and therefore we did not have access. However, as Mr. Godwin has indicated——

The CHAIRMAN. Therefore, you have gone through the freedom of information approach.

Mr. BROWN. Yes, we have it in. Mr. Godwin has indicated, though, that he is more than willing to proceed with the information we do have and is going to be specifically responsive.

The CHAIRMAN. I just wanted to see because if they are not cooperating with you, we would certainly see that they do. Now——

Mr. GODWIN. From my telephone conversations, Senator, I had every reason to believe that the information would be made available and that all I needed to do was bring a letter requesting the information under the Freedom of Information Act to protect the staff so that they would not be disciplined for sharing information with me.

The CHAIRMAN. The only reason I bring this out, it does take 10 days after your notice to even have a chance to get freedom of information matter, and that time has not even expired. I had heard—and maybe I am wrong but you correct me, Mr. Brown, if I misstate this—I had heard that your request was basically to give you every bit of information that they had made available to us.

Mr. BROWN. The request was one that was made at their request after we had had a discussion about what we were seeking, so it certainly was not meant to give everything they had but those things that would be available to us——

The CHAIRMAN. There are two reasons why I raise this: No. 1, I think you are entitled to look at files; and, No. 2, if you had not made the request early enough then I cannot see how you can complain.

Mr. GODWIN. That is right. Well, Senator, they told me they had already assembled it because they had to do that to send it to you, so I was told just to get the letter, bring it by, and they would be glad to give it to me. Then, of course, by the time the letter got there all of that changed.

Now let me zero in on this GAO report. The reports allege instances of poor management in the administration of the programs, as has been repeated here several times. They claim to have found such things as inadequate documentation in the grants, not enough site visits, poor contract negotiating techniques, and I must agree with the GAO that some of these mistakes, if they in fact were made, do not seem justifiable.

I am not inclined to dispute their finding or deny that some ONP staff failed to do all of what they should have done in terms of good preaward contract procedures some of the time. Most of the staff, however, is extremely dedicated, committed, and competent.

The basic causes of these problems that you have heard so much about here today, to the extent that they exist, are an inadequate number of people in comparison to the workload and inadequate training of these people. These problems were related to Departmentwide budget constraints for training and for personnel and were not within my control.

You asked the question, why a certain person who visited a project did not detect fraud or abuse in an accounting system, an audit-type question. Most of these people have no training in accounting. Mr. Kacvinsky, as he pointed out, is a tool and die maker. Mr. McConnell, who preceded me in this job, was a carpenter. There are other people in the Department who are college graduates with liberal arts degrees.

I mean, we do not have on that staff in the career ranks people with training in accounting. We do not have lawyers, people with those kinds of skills. They do not have investigative skills. They do not have financial management skills. Therefore, until the Department deals with the reality of the fact that these people need to be trained to do the job that they are expected to do, these problems are going to persist.

Mr. Angrisani made a lot of big promises in here today and I wish him a lot of luck. However, if he is going to manage the same people I managed then I think he is in trouble.

The CHAIRMAN. You are saying maybe we better start our employment training right in the Department of Labor?

Mr. GODWIN. I think that is correct, sir. The Congress has——

The CHAIRMAN. I wonder how much that will cost us? However, I think you are making a point there. It is a valid point.

Mr. GODWIN. They are highly committed, dedicated civil servants and they deserve more assistance than they are getting in terms of professional training.

The CHAIRMAN. Doesn't it bother you—excuse me. I do not mean to interrupt your statement.

Mr. GODWIN. That is all right.

The CHAIRMAN. I certainly do not want to show any discourtesy, but doesn't that bother you that you had to deal as a manager with people that you felt were either incompetent or not well-trained, or did not know how to handle these problems, that were handling millions of dollars or at least working with millions of dollars?

Mr. GODWIN. Well, I did not say that they were incompetent.

The CHAIRMAN. OK.

Mr. GODWIN. I just said that they need additional training. For example, the regulations changed several times. Each of these pro-

grams has separate, self-contained regulations, and as the regulations change the people really do need to be trained in those changes. I think everybody on that staff could benefit from an understanding of the basic elements of accounting, without being fully trained accountants.

The CHAIRMAN. However, you are not accusing the staff of being incompetent or unable to basically do their jobs?

Mr. GODWIN. No, I am not.

The CHAIRMAN. OK. What you are saying——

Mr. GODWIN. What I am saying is that their job became—as I will point out later—it became increasingly complex.

The CHAIRMAN. All right. You are saying that the Department of Labor has apparently no method of instructing these people who work on these programs to bring them current or up-to-date with what the changes are in legislation or regulations.

Mr. GODWIN. That is correct, and what is available needs great improvement. That has already been pointed out in other studies that have been done.

The CHAIRMAN. Did either you and/or Mr. Green make any suggestions to the then Secretary of Labor that you need to have some upgrading seminars or teaching processes?

Mr. GODWIN. Yes, we did. There is no question that we improved the training components of the Employment and Training Administration, staff training components, and in fact just in the final year that we were there we had established a new training facility out in Maryland. We established an Office of Management Assistance specifically for that purpose. We allocated more funds for that than anybody had ever done before, and the record will show that.

Now to give you a flavor of what it was like, in 1979 when the GAO did its detailed investigations—or when it did its investigations of the 1979 grants, I should say—we had 50 professionals who were responsible for 598 awardees. Some of these awardees had more than one grant so the total number of grants that they were responsible for was probably in the range of 900 to 1,000, $797 million.

Each representative was responsible for at least 12 grants, and these are not your CETA prime sponsor grants located in the big cities. Our grants are concentrated in rural areas and remote places: 175 Indian reservations; Alaskan native villages. We have ONP programs on the North Pole. We have ONP programs at the bottom of the Grand Canyon, and I have visited them myself. I can tell you that when you are under a travel freeze, and when you have only 50 people to look after 900 to 1,000 grants with awardees who are in rural places, it is very difficult to do monitoring.

The CHAIRMAN. Did you make a site visit to the North Pole?

Mr. GODWIN. Yes, I did.

The CHAIRMAN. You did? What did you find there?

Mr. GODWIN. What we found there was the first CETA program that had ever been established there. I personally threw the lights, I turned on the electricity in Ruby, Alaska—that is on the Yukon River—and flew over Mount McKinley in a single-engine plane to get there.

The CHAIRMAN. I see.

Mr. GODWIN. This is the first time the CETA program had ever reached that far.

It is important to understand also that we implemented, in addition to the regular ONP programs, many new initiatives. We had a special economic stimulus program. We had a special youth initiative. We had a special program for Vietnam veterans, a special program for displaced homemakers, for handicapped workers, small business workshops, private sector initiatives for Indians. We had reponsibility for coordinating the Department of Labor's rural development activities Departmentwide, numerous interagency agreements, and I was even responsible for an international agreement which I negotiated with the Department of Labor and Social Welfare in Israel. I sent Mr. Kacvinsky to Israel.

Now in addition to these responsibilities and all these new programs thrust upon us by the Congress and the administration, we had the regular old staff responsibilities of closing out grants and resolving audits. The travel freezes, staff reductions, all of this complicated our work.

Despite these problems, we implemented new procedures that greatly improved things in ONP. When I arrived there, I was shocked at the primitive state of affairs that existed. All of the management information systems were manual. There was an enormous backlog of grants and contracts that had expired in previous years and never been closed out. None of the major programs had been evaluated. Technical assistance to the grantees was nonexistent.

When I left ONP we had established computerized management information systems for most of the suboffices. We increased technical assistance to the awardees, especially in the area of financial management assistance. We established a special task force to reduce the grant and contract closeout backlog, and we increased the number of interagency agreements in order to get staff from other agencies to help us. We established a notification system to publicize the grants as they were awarded.

Contrary to the allegations of the GAO, another major accomplishment was the completion of numerous formal evaluations of our programs which they were unable to find, and I have them here. I have some of the documents here. All of these are formal evaluations of programs. In my written testimony I point them out. They were done for us by outside contractors, so I will not list them here.

GAO said we did few if any formal evaluations of our programs. It is hard for me to understand how they could miss all of this information. Now there is more at the office. This is what I happened to have at the house. [Laughter.]

Mr. GODWIN. The GAO investigators apparently were completely unaware that we prepared an evaluation for the Secretary which provided detailed information, such as total placements, average hourly pay increases for those placed. We even computed what we called participant income improvement ratios. I have that document here, which we presented to the Secretary on each and every one of the programs funded under our two major discretionary program categories. I will make that available to you.

It is important for this committee to understand that simply because the GAO could not find certain evidence in the files, it does not mean that the evidence does not exist. At the time the GAO did its investigation, some of the files were being closed out and handled by a special task force that was in a different building.

I also want to point out in this context that from my review of the award documents that were cited in the appendix of the GAO report for bad preaward procedures, none of those fortunately were reviewed or signed by me. Those specific contracts were signed by my deputy and my suboffice directors but, in fairness to them, it is important for you to understand that before a contract is signed it is reviewed by as many as five people. Until we see the signatures of four or five people, we do not sign the documents.

Now we presumed that the documents were carefully reviewed and that the staff people had done the work that they were supposed to do. Here again, it is important for me to emphasize something again that I said earlier, and that is that the methods that the GAO used to do this work guaranteed that some of their findings would be erroneous.

For example, there are numerous instances where the GAO investigators tried to get information from people who could not give it to them. It was impossible for the GAO to understand certain things without talking to the people who actually made the decisions that they were reviewing.

A case in point is one cited by the GAO on page 9, where they described a grant made originally through an interagency agreement with the Commerce Department, and they said that we renewed this grant even though it was a failure, and we knew of the problems that existed there and they had been well documented. What the GAO did not learn simply by reviewing the file was that my staff and I had determined that the Commerce Department, and not the grantee, was at fault. We felt that, unimpeded by the Commerce Department, the project could be made to work through a direct grant from the Labor Department.

It just so happened that all of the staff involved in this were no longer in the Department. I do not know why they could not find the documentation. It certainly was there. It appears at times that the GAO was more interested in allowing low-level employees, GS-12's and others, to second-guess their bosses than to really get answers to the questions they were raising.

I want to point out in this regard, to this committee, that this particular grant that we were criticized for funding and refunding has been refunded again by Mr. Angrisani and his staff. On May 5 this same program received $214,000, while they were under a staff travel freeze, without a comprehensive evaluation. It is important for you to understand that. Mr. Angrisani says he personally reviewed all of the grants that have been signed since we left the Department. It is important for you to know that.

Now let's discuss this allegation that ONP relied heavily on the use of sole-source contracts without demonstrating the need to use such awards to obtain employment and training services. The GAO presumption that competition is always the ironclad, preferred procedure for making grant and contract awards is erroneous.

The Department of Labor's employment and training policy on procurement of nonpersonal services, which is based on regulations and policy directives issued by the Office of Management and Budget, was reaffirmed in a November 4, 1980 memo to the entire executive council from Deputy Assistant Secretary Charles B. Knapp which states that the following is the order of priority for selecting contractors: First priority is given to 8[a] firms selected through negotiations with the SBA. Second priority is given to firms in the small business set-aside program. Third priority is given to competitive procurement by way of formal advertising.

In order to get an exception to this order of priority, that is, to use competitive procurement instead of 8[a] or small business set-asides, you had to make a written request to the Deputy Assistant Secretary. Now I never made a request for an exemption from this order of priorities because I enthusiastically supported the 8[a] program.

I was following the laws and policy directives of the U.S. Government when I awarded sole-source contracts to minority firms through the 8[a] program, and during my tenure as Administrator of the Office of National Programs we increased the volume of noncompetitive, sole-source contracts through the 8[a] program from five contracts totaling a mere $518,000 in fiscal year 1976 to 59 contracts totaling $14,814,000 in fiscal year 1980.

This was done on the basis of a mandate from the President to expand participation of minority owned business firms. A Presidential memorandum which we can make available to the committee specifically instructed all Federal agencies to triple the volume of 8[a] contracts (Appendix A.), and a special order from Secretary Marshall reinforced this order with specific goals and timetables.

[The information referred to follows:]

APPENDIX A

Following, from President Carter's March 27, 1978 message to Congress submitting his proposals for a comprehensive national urban policy, is the excerpt relating to minority businesses:

> Minority Business. Minority businesses are a critical part of the private sector economic base of many cities, communities and neighborhoods, and provide important employment opportunities to city residents.
>
> I propose today two important initiatives which will increase the role of minority businesses in our economy. First, in comparison with FY 1977 levels, we will triple federal procurement from minority businesses by the end of FY 1979 -- an increase over our earlier commitment to double minority procurement.
>
> In addition, I intend to ask all federal agencies to include goals for minority business participation in their contract and grant-in-aid programs. Five agencies -- HUD, Commerce, EPA, Interior and DOT -- already have proposed improvements in minority business programs. These programs all build on our successful experience with the Local Public Works Program.
>
> Finally, I intend to facilitate greater interaction between the minority business community and the leaders of our Nation's largest corporations.

This policy was reaffirmed in a January 13, 1980 memorandum from the White House to all agency heads.

Mr. GODWIN. Success in expanding the volume of noncompetitive, sole-source 8[a] contracts through the Office of National Programs was one of the items included in my Senior Executive Service performance standards, one of the things that would be used to judge how well I was doing my job.

The fact that the GAO could raise the issue of sole-source procurement and question it without ever mentioning the existence of the 8[a] program, which was one of the largest noncompetitive sole-source programs in existence in the Government, is inexcusable. The fact that the GAO did not know of our order of priorities in awarding contracts, which is set forth in MA Handbook No. 305, is inexcusable. It further undermines the credibility of their report.

Now another source of justification for the use of noncompetitive, sole-source award procedures as determined by the Solicitor of Labor is contained in section 123(1) of CETA, which specifically directs the Secretary of Labor to give special consideration in carrying out programs authorized by this act to community-based organizations, as defined in section 3, which have demonstrated effectiveness in the delivery of employment and training services.

Section 3, which gives the definition of community-based organizations, specifically mentions the Opportunities Industrialization Centers, the National Urban League, SER-Jobs for Progress, the United Way of America, Mainstream, the National Puerto Rican Forum, neighborhood groups and organizations, community action agencies, community development corporations, vocational rehabilitation organizations, rehabilitation facilities as defined in section 7(10) of the Rehabilitation Act of 1973, agencies serving youth, union-related organizations, and employer-related nonprofit organizations.

Federal procurement regulations—I have a copy for the record—state that contracts may be negotiated without formal advertising and competition if "otherwise authorized by law." Our Solicitor determined that we were specifically directed in the CETA legislation to award certain contracts on a noncompetitive basis. That was the Solicitor who made that determination; that is the highest legal authority in the Department; and that is the basis for most of the noncompetitive awards that were made.

(NOTE.—In the interest of economy, the copy of the Federal procurement regulations referred to was retained in the files of the committee.)

Mr. GODWIN. Another example of a specific directive from the Congress to the Secretary to make awards on a noncompetitive, sole-source basis can be found in section 303(c)(2) of CETA. This act, which deals with certain farmworker programs that provide educational services, required the Secretary to continue in existence—that is, to refund—any program which was in existence on the effective date of that provision. Therefore, we were told in the legislation to refund programs if they were in existence on the date that this amendment went into effect.

Finally, the sole-source awards were not based on the decisions of one or two DOL officials. There was a sole-source board which approved everything that we had any doubts about and turned some down, and there was a steering committee, as Assistant Secretary Green has pointed out.

Now let me address the issue relating to the grants and contracts from title III and title IV discretionary funds made during the first 4 months of fiscal year 1981, between September 1 and January 31. Obviously I can only speak to those grants and contracts awarded before January 20. These include grants and contracts made through the Office of National Programs and the Office of Youth Programs.

During the period from October 1, 1980 to January 31, 1981, 68 ONP awards totaling $42.6 million were made by ONP and 82 awards totaling $52.2 million were made by OYP, according to the GAO report. GAO argues that certain of these awards were unplanned, as though that were significant for some reason, even though GAO notes that there is no legal problem with funding unplanned awards. From the extensive discussion of unplanned grants, GAO creates the impression that reckless and irresponsible decisions were being made by me and the Assistant Secretary.

The funding plan during my tenure at ONP was an internal document prepared as a guide to aid in administering agency funds by making it possible for program officials to keep track of funds that would likely be committed to specific projects. The plans were not binding but were only guides. They could change from one day to the next, and they often did. For example, funds that were included in the plan for certain projects would sometimes be used instead for things such as disaster assistance, trade adjustment assistance, or some other unforeseen expenses.

However, what is more important for the committee to know and understand is that GAO's statement that four ONP projects were not in the 1981 plan is totally erroneous. The GAO states that of the $42.6 million in awards from ONP, $800,000 was for unplanned awards. This is not true.

The $75,000 award for the Community Services Administration, an interagency agreement, and the $227,000 award for Pacifica Services were included in a title III funding plan under the category of rural development initiatives. The Rosslyn Foundation and the New York City Department of the Aging contracts were approved by the steering committee, which meant automatic inclusion in the funding plan.

The GAO study stresses that 70 telegram commitments went out from DOL during the first 4 months of fiscal year 1981, 18 from the Office of National Programs for the programs that this office administered directly, totaling $15.3 million, and 34 commitments from the Office of Youth Programs, totaling $14.6 million according to GAO.

Notification by telegram to a grantee that a proposal will be funded by the Department is not an extraordinary procedure. We did not invent it, and it is still being used. Mr. Angrisani sent 110 telegrams in 1 week to 55 migrant and seasonal farmworker grantees: 55 telegrams telling them they had grants or did not have them; another 55 telegrams telling them that the whole process had to be repeated because it was full of procedural violations.

During the period from Oct. 1, 1980 to mid-January when the new administration took office, several circumstances impeded our progress in making fully executed awards in a more timely manner. First there was the uncertainty within the Department

over the exact amount of funds Congress had made available for expenditure in fiscal year 1981. Congress passed two short-term continuing resolutions during the 4-month period of fiscal year 1981 that I was ONP Administrator: We got one continuing resolution from October 1 to the middle of November; another continuing resolution from November to July, I think.

Ironically, the current administration is in the same bind. Mr. Angrisani has no idea what his budget will be. He is operating under a continuing resolution; he does not even know what the continuing resolution will allow him. It is quite possible that if he stays on the same schedule that we were on this time a year ago, he will find out some time in late November, and then there will be the Thanksgiving and Christmas and New Year's holidays, and he will probably get some telegrams out in January when he gets a reading on what that continuing resolution will provide.

When you add to these problems with the continuing resolutions, the fact that staff production slowed down the way it always does in a lame duck administration period, the fact that it was difficult for us to get a quorum for the Sole Source Board during the holiday season, the already inadequate staff that I have talked about, it is important to understand why we had this backlog which resulted in a large number of grants coming out towards the end of the term rather than on schedule at the beginning of the fiscal year in October.

Now of the 18 telegrams that went out, Senator, only 1 relating to an ONP-administered program went out on January 19. This was not a new award; this was a renewal of a program for elderly Indians on a reservation in Wisconsin. The 70 telegrams sent out by both ONP and OYP were signed by me or my deputy, and our signatures may be found on some commitment telegrams for programs administered by the Youth Office because my deputy and I served as contract officers for that office and all other major components of the Employment and Training Administration, mainly in a ministerial role.

In conclusion, Mr. Chairman and members of this committee, let me say this: These GAO reports are not as useful as they could be. I do not think they will help you as much as I would like for them to because of the numerous factual errors and the fact that they have made some errors of interpretation. I do not think it will be a very useful document for those who want to make certain improvements in the management and administrative practices of ONP that I would recommend. I think this committee deserves better and more reliable information, and I do not think the GAO even addressed some of the basic problems of that office.

The best evidence of this is the fact that these problems continue. As I have mentioned already, the new administration is struggling with the same kinds of difficulties that we encountered. Mr. Angrisani has only been in office for a few months, and he has not been able to have a smooth competitive process award.

That system was so botched up that they had to recall all of the letters of commitment and redo the competitive process because of all kinds of procedural violations. The entire national program grantee system right now is in a state of confusion and chaos. The grantees cannot tell you when they will be funded, if they will be

funded, or if funded, in what amount. Nobody knows. Mr. Angrisani cannot tell them and they cannot find out from Mr. Angrisani, and Congress does not know either because they have not made the final determination on what the level of funding will be in the continuing resolution.

Nowhere in the GAO report is there any acknowledgement of the very important fact that many of the most serious problems involved in administering this office, administering these grants and contracts, emerged from sources outside ONP. There is no one in the Government, Senator, who can tell you when to use a grant and when to use a contract. The GAO acknowledges that that debate has been going on for several years. It still is not resolved. The OMB does not give you clear guidance on this.

This office was always under extreme pressure from the Congress, for example, through language in the act which required that Indian programs be administered through a centralized unit that is separated from everything else; that the Indian program have separate, self-contained regulations; that the farmworker program be administered in yet another way, with competitive procedures for awards; that the programs for older Americans be used with a specific formula for funding States in certain amounts and selected organizations in another amount; that the displaced homemaker program be handled in a certain way; that we give preference to community-based organizations.

This is all written into the law and into the reports of the appropriations bills, and this is constantly interpreted for us in numerous calls we get from congressional offices. We got more congressional correspondence than any other office in ETA, more congressional visits than any other office in ETA, and it is important to understand that Congress kept on adding new programs and kept on earmarking funds for specific programs and projects without increasing the staff or without ETA or DOL providing much training that was needed by the staff.

Now I realize that our administration of these programs was not perfect but, despite the complexities of the office and the pressures we faced, I am glad I have this opportunity and I am very proud of the record that we established, a record which will show that we provided more employment and training opportunities for poor Indians on reservations and in Alaskan native villages than anyone else had ever done.

We provided more employment and training opportunities for migrant and seasonal farmworkers than anybody else has ever done. We provided more jobs for low-income senior citizens than anyone has ever done, created more employment and training opportunities for handicapped workers than anyone has ever done; more employment and training opportunities for women and minorities in the skilled trades than anyone has ever done; more funding opportunities for Black and Hispanic community-based organizations than in the history of the Department of Labor; more contract opportunities for minority-owned business firms than ever before.

We appointed the first Indian office director, the first Hispanic office director, and the first women to GS-14 supervisory positions. We tripled the number of labor organizations funded. We tripled,

more than tripled the number of private business firms and employer associations involved in our programs from only 8 in 1976 to 200 by 1980.

I think it is important, Senator, that if this committee is seriously interested in understanding and correcting the more basic problems with the administration of these programs, that you will consider commissioning a management study that would be performed by competent management and research experts who would approach this in an objective fashion and in an atmosphere where they have time to do careful research, free from any kind of pressure.

I care about these programs, and I am very much disturbed by the fact that this already inadequate staff will be decimated by the current reduction in force; by the fact that the GAO issued a report with numerous recommendations and not once addressed the issue of the need of the staff for training. I do not think Mr. Angrisani—and I think he will learn this soon—will make much progress unless he assigns high priority to more staff training and does as he said he was going to do—allocates more staff to that office.

This concludes my prepared statement, Mr. Chairman. I stand ready to help this committee in any way that I can and I would be happy to answer any questions you might have.

The CHAIRMAN. Thank you, Mr. Godwin.

I am going to make some recommendations to the Labor Department myself. I think these hearings have been very valuable because we have brought out a lot of different thoughts concerning how we might be able to implement these programs and make them better.

We will certainly ask that Senator Quayle, who of course heads up the Employment Subcommittee on this committee, look into all of the suggestions that you have made and everybody else today, as a matter of fact, including the GAO.

With regard to establishing a commission, I do not know. Generally they are established by the bureaucracy itself, and I have not seen an awful lot of good come from hardly any of the commissions. If the President establishes a Presidential commission, which may be a valuable way of doing it, it still I think would wind up with a split but nevertheless a valuable debate on the subject.

Let me just say this: I do not want to keep you much longer but on page 4 of the GAO statement, they found that 73 percent of these grants and contracts had no cost evaluation; 70 percent did not document technical aspects. In two-thirds of the cases there was no documentation of negotiations having been conducted. The costs were not negotiated 68 percent of the time. Negotiations on the technical aspects occurred only 32 percent of the time.

Do you dispute those findings themselves?

Mr. GODWIN. Yes; I dispute the findings because I think the GAO has confused recordkeeping problems with management and decisionmaking problems. I do not believe that those contracts were let in such a way that they were not negotiated.

It may be possible that the documentation was not there. In one instance, for example, one very important instance, Operation PUSH, the PUSH-EXCEL grant, the staff person who handled that told the GAO that he simply had not taken the time to write the

memorandum of negotiation. Now this probably occurs on numerous occasions, where people make decisions that are very carefully thought out, where people do very detailed negotiations, and they do not record all of this information.

The GAO people are historians. They go in looking for facts on the basis of what is in the record, and they try to reconstruct reality by looking at documents. They pointed out that throughout the Government this is a serious problem. It may be that this can be cured, as the GAO recommended, by issuing an order to the staff to do this documentation.

I myself am not very optimistic about that being done simply by ordering the people to do it because we ordered them to do it, and it did not get done. I think when you have an enormous workload and so few people, compounded by the sometimes less than perfect skills of the people, that a lot of this paperwork documentation is going to be sacrificed in the interest of getting grants out.

We never had a call from a Congressman who told us to document that negotiation process. The calls always said, "Get that grant out today."

The CHAIRMAN. I would believe that, I will tell you.

Mr. GODWIN. We have never had a call from anywhere, in terms of our superiors in the Department, ordering us to document this negotiation. We have a lot of calls saying, "Let's process these grants," or "Let's resolve this audit," or whatever. Therefore, I think that the GAO has confused the recordkeeping problem with a more serious problem which they have concluded is widespread, which I do not believe is.

I know, for example, that the grants that I personally reviewed—and I reviewed most of the 8(a) contracts—those documents are in order. The PUSH-EXCEL grant is one of the best grant documents you will find anywhere in the Government. Now that particular staff person did not write the memorandum for the file but I hope he will—in light of all that has been expressed here in the way of concern about that—I hope he will go back and see that that is done.

The CHAIRMAN. Well, why are you then mutually terminating that grant?

Mr. GODWIN. I do not know, Senator. I can tell you this, that it has been very difficult for them to terminate that grant because, as you pointed out, it is more difficult to terminate a grant award than it is to terminate a contract. Now Mr. Aaron——

The CHAIRMAN. That is right. However, they have voluntarily done that.

Mr. GODWIN. Mr. Aaron, who is one of the most competent people in that office, reported that there is no problem with the program in terms of performance. I think the fact that this grant was singled out as one of those that got a lot of negative and inaccurate publicity in the newspapers—Labor Department officials described it as a political payoff, stories all across the country announcing that the grant had been canceled when in fact it had not and as of this date still is not canceled—all this misleading information that was published, released by the Labor Department attacking the wrong organization, in fact, Operation PUSH does not have any Government grants. The PUSH-EXCEL Institute,

which is a separate corporation, was the grant recipient. The Labor Department attacked Operation PUSH.

I think the Operation PUSH people, correctly in my view, interpreted all this as political harassment and they are not willing to continue to be subject to this kind of treatment. They do not feel they will get a square deal, and therefore they want to terminate their relationship with the Government.

Now Mr. Aaron and Mr. Alegria pointed out that they worked hard on those documents and those negotiations to make that a good grant. The instructions I gave Mr. Aaron and Mr. Alegria were to negotiate the best grant document you can get for the Government and for the grantee. I told Mr. Alegria that I would allow him to sign it, and I told him not to put his name on it unless he would take responsibility for it, and he signed the document. He was convinced, as he said here, that it was a good grant agreement; Mr. Aaron said it was a good grant agreement.

It was terminated in the midst of all this newspaper reporting and harassment for what appear to be essentially political reasons.

The CHAIRMAN. Let me say this: I have some other questions that I will submit to you in writing. I want to thank all of our witnesses for appearing today, to thank them, the press, our guests, and most important of all, our reporter for all of the patience that you have had.

I think it is extremely important that we attempt to present the most complete picture of the problems and other questions raised here today as a result of the work of several entities—the GAO, the Department of Labor, the Inspector General's Office—all of whom have been charged with the responsibilities for oversight and administration of these badly needed programs.

It is my hope that when the record is complete we will have a clearer idea on how to correct these deficiencies, administratively or legislatively. I can tell you that, as you know, Mr. Godwin, I have been a strong supporter of some of these programs. You have been interested in working with OIC; I am a strong supporter of OIC. I think any time you can get private sector people together, even though they are subsidized by the Federal Government, to help create jobs on a successful basis, that is a lot better than letting these kids vegetate.

I am a strong supporter of Job Corps. I could go on and on but the point I am making is that I think these hearings have shown that we need to look at these programs with more critical eyes. We need to look to see how we can utilize the tax dollars that we have, the limited tax dollars, so that the most young people and aged people who really benefit from these programs will be helped.

I think it is apparent today, I think that if Mr. Angrisani needs money after the freeze is lifted on traveling for site inspections, I think this committee—as divided as it is on CETA programs—will do the very best we can to try to provide those funds and to see that they are worked into not only the authorization but the appropriations process.

I do think that the GAO is very well justified in many of its criticisms. I do not see how anybody who looks at the facts can think otherwise but you have certainly made a very strong statement here today.

I will submit some questions to you which we would appreciate your answering within, say, 10 days from today's date if you can.

Mr. GODWIN. I will be glad to cooperate in any way I can.

The CHAIRMAN. Thank you, sir. We appreciate it.

[The prepared statement of Mr. Godwin follows:]

STATEMENT BEFORE THE
COMMITTEE ON LABOR AND HUMAN RESOURCES
UNITED STATES SENATE

October 20, 1981

Mr. Chairman, Members of the Committee, my name is Lamond Godwin, former Administrator of the Office of National Programs, U.S. Department of Labor.

Before I proceed further, Mr. Chairman, I request that my entire written statement, my oral remarks, and the documents that I present be included in the record.

The Committee staff has informed me of some of the major issues which concern the Chairman. However, before addressing those issues, I would first like to express some of my concerns about the process adopted in this particular instance by the Committee in exercising its oversight authority over the Department of Labor's employment and training programs.

I am very much disappointed and disturbed by the fact that this proceeding appears to be based upon the total erroneous assumption that I, as Administrator of the Office of National Programs (ONP) and Mr. Green, as Assistant Secretary for the Employment and Training Administration (ETA), are the only two employees in the entire Department of Labor who made decisions regarding Title III and Title IV discretionary grant funding. Anyone who knows anything

about government bureaucracy knows this could not possibly be true. By singling us out, the General Accounting Office's motivations behind this investigation are immediately suspect.

Second, a point which I will come back to several times in my testimony is the inexcusable lack of veracity of the two recent reports GAO produced on its investigations of employment training grants and contract awards. Much of the Committee's information is obtained from these two reports -- one dated August 28th (HRD-81-111) and the other dated August 31st, 1981 (HRD-81-145). I am convinced that these are not credible reports. In many instances, the findings are based upon incomplete and erroneous information. In some cases, information I know to be available through the Department that would have explained certain funding decisions was not reviewed, otherwise, different conclusions would have been drawn from the investigations.

This Committee should not ignore the fact that the GAO conducted not two but ten separate investigations of the Office of National Programs during the 3 and 1/2 year period that I served as Administrator of this Office. Indeed, the ONP was investigated more frequently than any other office within the Department of Labor, and perhaps within the entire Executive Branch of the government. We even requisitioned extra office space and furniture to accommodate the GAO staff, some of whom spent more time in our office than in the GAO building. These investigations consumed an

enormous amount of the ONP staff's time and energy, but in every single instance my staff and I cooperated fully with the GAO investigators.

Some of these investigations were initiated for political reasons. For example, one investigation was initiated because my Office did not bow to political pressure to reverse a funding decision following a meeting with representatives of an entire State Congressional delegation.

I want to stress to the Committee that none of these investigations ever found a violation of any Federal rules, regulations, and requirements. I am very proud of this record. No internal Departmental investigation ever found any violations of Federal rules, regulations, and requirements.

That does not mean that the administration of the Office was perfect. There was certainly room for improvement, and there still is. In some instances the findings and recommendations that emerged from the GAO investigations were useful to us in making improvements in the programs we administered. In many instances, however, the conclusions and recommendations published in GAO reports were based on errors of fact, and/or interpretation, and, therefore, were not useful to us at all. Usually, the GAO gave me and other officials in the Department an opportunity to discuss their findings and challenge their recommendations, which we did very often.

The two reports that are the subject of this hearing are an important exception to this general pattern of cooperation, constructive debate, and honest disagreement. I was not afforded an opportunity to discuss or dispute the findings, conclusions or recommendations in these two reports with the GAO staff despite the fact that I was willing and readily available to cooperate with these investigations. I would have provided them with specific information which would have resolved many doubts and could have been verified independently through documentation and discussions with employees at DOL. Unlike most other GAO investigations, these last two were conducted in a witch-hunt atmosphere which has caused many of us to be suspect of their motivations.

Furthermore, I want the Committee to be aware that I did not receive cooperation from the Department of Labor in gaining access to written documents I know to be in existence that would have helped me in preparing my statement for this hearing.

Notwithstanding all of these problems, I welcome this opportunity to appear before the Committee to address the GAO reports and the issues which the Committee staff has indicated are concerns of the Chairman.

1. Let me now focus on specific allegations in these two GAO reports.

The reports allege instances of poor management and administration of ONP programs. They claimed to have found such things as inadequate documentation of grants, not enough site visits, and poor contract negotiating techniques. I must agree with GAO that some of the mistakes, if they were made, do not seem justifable, and I am not inclined to dispute their finding that some ONP staff failed to follow good pre-award procedures some of the time. Most of my staff, however, was extremely committed and dedicated. The basic causes of the program management and administrative problems were (1) an inadequate number of staff people for the workload, and (2) inadequate staff training. These problems were related to Department-wide budget constraints for training and personnel and were not within my control.

An objective study of staffing requirements for the ONP by Booze-Allen and Hamilton, a management consulting firm, stated in 1977 that ONP required a minimum of 135 positions. This figure amounted to a net increase of 25 positions above the number of staff in ONP at this time. ONP never even approached a staffing level of 135 positions between 1977 and 1980. Even though ONP's program budget doubled, ONP and the Employment and Training Administration of which it is part, was subjected to several position ceiling freezes, and staff reductions during this period. The ONP ceiling for 1980 was only 112 positions including clerical.

In 1979 when the GAO did its most detailed invesigations, 50 ONP professionals were responsible for administering grants to 598 awardees that totaled $797.5 million. In other words, each ONP Federal representative was responsible for about twelve grants or contracts that were spread throughout the United States, many located in remote rural areas. There are ONP funded programs in Alaskan villages on the North Pole, and in Indian communities at the bottom of the Grand Canyon.

The problem of inadequate staffing was even further compounded by additional functions thrust upon ONP as a result of new program initiatives under the Economic Stimulus Program, the Youth program, the Special HIRE Program for Vietnam Veterans, a new Program for Displaced Homemakers, Handicapped Workers, Small Business Workshops, Private Sector Initiatives for Indians, and the functions of co-ordinating the Department-wide Rural Development Initiatives Program, and designing and funding numerous inter-agency agreements, and one international exchange agreement with Israel. In addition, the difficult and time-consuming responsibilities of ONP staff for resolving audits and closing out old grants continued.

Also, numerous travel freezes that resulted from reductions in the ETA Salary and Expenses budget that occurred at the same time that we received huge increases

in our program budget adversely affected our program monitoring capabilities.

The ONP staff could have benefitted from additional training in good negotiation techniques, and other skills necessary to their jobs. Inadequate staff training is a department-wide problem that must be addressed if the problems in the GAO report are to be prevented in the future.

Despite problems that were almost inherent in the system, new procedures were implemented during the four years I was Administrator. I was shocked by the primitive state of affairs that existed in the ONP when I arrived to assume my duties. For example, all of the management information systems were manual. There was an enormous backlog of grants and contracts that had expired in previous years and were never closed out. None of the major programs had been evaluated. Technical Assistance to the awardees was virtually non-existant.

When I left ONP, we had established computerized processing systems for data management in most ONP sub-offices. We greatly increased the technical assistance available to awardees, especially in the area of financial management assistance. We established a special task force to reduce the grant and contract close-out backlog. We increased the number of interagency agreements in order to obtain assistance from other agencies for better administration of ONP programs.

Contrary to the allegations of the GAO, another major accomplishment was the completion of numerous formal evaluations of ONP programs with the assistance of outside contractors which enabled us to get further information on contract performance. Some of these included:

- An assessment by Dell Green and Associates, Inc. of rural housing programs funded by ONP that was the first evaluation of these programs since their implementation 13 years ago.
- An assessment of the HEP and CAMP programs for migrant and seasonal farmworkers done by Clark, Phipps, Clark and Harris Inc. that was the first evaluation ever done of these programs by the Department of Labor.
- An assessment of our management of the targeted outreach program done for us by the University of Texas.
- Two evaluations of our Indian and Native American programs done for us by the E.H. White Co. and Urban and Rural Systems, Inc.
- An assessment of the financial management systems of farmworker program grantees and Indian reservation program grantees done by the Consortium of Certified Public Accounting Firms.
- An evaluation of the procedures used to select grantees under the CETA Title III program for farmworkers done by the National Academy of Public Administration.

- An assessment of our special youth programs for migrant and seasonal farmworkers done by the E.H. White Co.
- An evaluation of our Rural Development Initiative programs in the State of North Carolina done by the Manpower Development Corporation.
- An evaluation of the PUSH-EXCEL program done by Jefflyn Johnson and Associates.
- Numerous special audits of grantees that were under investigation for fraud and abuse that were done for us by the Inspector General or the Assistant Secretary for Administration and Management.

The GAO investigators apparently were completely unaware of the existence of these evaluations as well as the special discretionary program evaluation report we prepared for the Secretary in 1979 which evaluated each grantee under our two major discretionary program categories on the basis of total placements, average hourly pay increases for those placed, and participant income improvement ratios. More formal evaluations of programs administered by the Office of National Programs were done while I was Administrator of this Office than at any other time in the history of the Labor Department.

It is important for the Committee to understand that the fact that the GAO could not find certain evidence in the files does not mean that the evidence does not exist.

At the time the GAO did its review of 1979 grants and contracts, some of these files, or parts of them, were being used by a special close-out task force that was located in a different building. Throughout this report, the GAO seems to confuse recordkeeping and filing problems with management decisionmaking issues.

I want to point out that of all the examples taken from award documents and cited for bad pre-award practices in Appendix III of the August 28th study, none of those was reviewed or signed by me. Those specific grants and contracts were signed by my sub-office directors or my Deputy, whose other responsibilities were limited by me so that he could devote almost all of his time to reviewing and signing grants and contracts.

I also want to point out in this context, in fairness to my Deputy as well as myself, that grants and contracts presented to us for signature had been reviewed by at least four or five individuals, including contract specialists, who affixed their initials to the documents before those documents reached my desk. It was my presumption that those documents were carefully reviewed. I certainly had no reason to believe that none of the four or five people reviewing them before me was not fulfilling his or her responsibilities.

It is important for me to reemphasize something I stated earlier regarding the methodology of the GAO study.

That is that the methods used to collect the information presented in these reports guaranteed that some of the findings and conclusions would be erroneous. For example, there are numerous instances where is was impossible for the GAO investigators to get essential information needed to understand why certain funding decisions were made without talking to me or other staff people who were directly involved in making these decisions.

A case in point is the example cited by the GAO on page 9 of the August 28th study (HRD-81-111) wherein the GAO alleges that we renewed a contract in 1979, originally funded through an interagency agreement with the Department of Commerce in 1978, even though "this effort was a failure, and the problems encountered were well documented." However, what the GAO was unable to learn simply by reviewing the file, was that my staff and I determined that the Commerce Department, not the grantee, was responsible for the problems found in this project. We felt very strongly that, unimpeded by the Commerce Department, the project could be made to work through a direct grant from the Labor Department. If they had interviewed me or the other staff people who were directly involved in this decision, we could have explained this and other facts to them. The GAO seemed to be more interested in allowing lower level employees to second-guess their superiors than in obtaining accurate information directly from the actual decisionmaker.

I want to point out to this Committee that the GAO report did not note the fact that this contract was refunded by Assistant Secretary Angrisani and his staff on May 5th, 1981 in the amount of $214,000.

2. Now let me discuss GAO's allegation that ONP relied heavily on the use of sole source awards without demonstrating the need to use such awards to obtain employment and training services.

The GAO presumption that competition is always the ironclad "preferred" procedure for making grant and contract awards is erroneous. The Department of Labor's Employment and Training policy on procurement of nonpersonal services, which is based on regulations and policy directives issued by the Office of Management and Budget was reaffirmed in a November 4, 1980 memo to the ETA Executive Council from Deputy Assistant Secretary Charles B. Knapp. As the memo mentions, the policy is contained in a document entitled MA Handbook #305. (I do not have the Handbook because of difficulty in getting documents from DOL, but I do have the memo.)

The memo sets forth the following order of priority for use in selecting contractors:

- First priority is given to 8(a) firms selected through negotiations with the SBA.
- Second priority is given to firms in the Small Business Set-Aside program.

- Third priority is competitive procurement via formal advertising.

Exceptions to this order of priorities, e.g., the use of competitive procurement in lieu of 8(a) or Small Business set-asides, can be adopted with prior approval of the Deputy Assistant Secretary for the Employment and Training Administration. I never made a request for an exception to this policy because I enthusiastically supported the section 8(a) SBA Affirmative Action program for minority business firms. I am aware of the position that some Senators have taken on Affirmative Action programs. However, whatever their political philosophies regarding Affirmative Action, it is important that the Committee understand that I was following the laws and policy directives of the United States Government in the sole source awards contracts to minority firms through the 8(a) program.

During my tenure as Administrator of the DOL Office of National Programs we increased the volume of non-competitive sole source contracts through the Section 8(a) program from 5 contracts totaling a mere $518,872 in Fiscal Year 1976 to 59 contracts totaling $14,814,000 in Fiscal Year 1980. This was done on the basis of a mandate from the President to expand the participation of minority-owned business firms in federal contracts programs. A Presidential memorandum which specifically instructed all Federal agencies to triple the volume of Section 8(a) contracts was distributed to all

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contracting offices in the Department of Labor together with a special order from Secretary Marshall which set specific goals and time tables for achieving the President's objective. Moreover, success in expanding the volume of Section 8(a) contracts awarded through the Office of National Programs was one of the items included in my Senior Executive Service (SES) performance standards. The fact that GAO failed to mention the 8(a) program or the policy set forth in MA Handbook #305 is inexcusable, and further undermines the credibility of their report because they give the impression that there is no basis for non-competitive awards.

Another source of justification for the use of non-competitive sole source award procedures, as determined by the Solicitor of DOL, is contained in Section 123(1) of the Comprehensive Employment and Training Act which specifically directs the Secretary of Labor to ". . . give special consideration, in carrying out programs authorized by this Act, to community-based organizations, as defined in section 3, which have demonstrated effectiveness in the delivery of employment and training services."

Section 3 of the Act defines "community-based organizations" in the following way:

> "The term 'community-based organizations' means private nonprofit organizations which are representative of communities or significant segments of communities and which provide employment and training services (for example, Opportunities Industrialization Centers, the National Urban League, SER-Jobs for Progress,

United Way of America, Mainstream, the National Puerto Rican Forum, neighborhood groups and organizations, community action agencies, community development corporations, vocational rehabilitation organizations, rehabilitation facilities (as defined in section 7(10) of the Rehabilitation Act of 1973), agencies serving youth, union-related organizations, and employer-related nonprofit organizations)."

As the GAO Report acknowledged, the Labor Department Solicitor developed an administrative definition of "demonstrated effectiveness" which means that the services an awardee will provide relate specifically to competencies in providing specific training, access to jobs, and access to target groups. Virtually all the grants we made to national labor organizations for the purposes of increasing the number of women and minorities in training positions and jobs controlled by these unions through exclusive hiring agreements, we done on a sole source basis because there was no realistic alternative to training and placing minorities in certain jobs in the unionized sectors.

Another example of a specific directive from the Congress to the Secretary to make awards on a non-competitive sole-source basis can be found in Section 303(c)(2) of the Comprehensive Employment Training Act. This section of the Act, dealing with grant renewals to certain farmworker programs, clearly requires the Secretary to "continue in operation any program which was in existence on the effective date" of the provision. The programs intended for renewal of funding, include those which are

". . .(i) operated through the use of the facilities of any institution of higher education; and

(ii) designed to assist migrant and season farmworkers through tutoring, counseling, and other similar assistance. . . ."

Section 303(c)(2) also directs the Secretary ". . . to continue the operation of any such program for so long as such program is consistent with the purposes of this section, as determined by the Secretary."

Finally, sole source awards were not based on the decisions of one or two DOL officials. There was a Sole Board which approved sole source awards.

3. I would now like to address issues related to the grants and contracts from Titles III and IV discretionary funds made during the first four months of fiscal year 1981, between September 1, 1980 and January 31, 1981. I obviously can only speak to those grants and contracts awarded before January 20, 1981. These include grants and contracts made through the Office of National Programs and the Office of Youth Programs, and are the focus of the August 31st GAO report. (HRD-81-145)

During the period from October 1, 1980 to January 31, 1981, 68 ONP award actions totaling $42.6 million were made by ONP and 82 award actions totaling $51.2 million were made by OYP, according to the GAO report. GAO points out that certain of those awards were "unplanned" awards, as though

that were significant for some reason, even though GAO notes that "there is no legal problem with funding unplanned awards." From its extensive discussion of unplanned grants GAO creates the impression that reckless and irresponsible decisions were being made by me and the Assistant Secretary.

The funding plan, during my tenure at ONP, was an internal document prepared as a guide to aid in administering agency funds by making it possible for program officials to keep track of funds that would likely be committed to specific projects. The plans were not binding, but were only guides. They could change from one day to the next. For example, funds that were included in the plan for certain projects, would sometimes have to be used, instead, for things such as disaster assistance, Trade Adjustment Assistance, or for some other unforeseen expenses.

However, what is more important for this Committee to know and understand is that GAO's statement that four ONP projects were not in the 1981 plan is totally erroneous. The GAO states that of the $42.6 million in awards from the ONP, $800,000 was for "unplanned" awards. This is not true. The $75,000 award for the Community Services Administration and the $227,042 for Pacifica Services were included in a Title III funding plan under the category of Rural Development Initiatives. The Rosslyn Foundation and New York City Department of the Aging contracts were approved by the Steering Committee and, therefore, were automatically included in the funding plan.

The GAO study states that 70 telegram commitments went out from DOL during the first four months of fiscal year 1981. Eighteen of those commitments were for ONP administered programs totaling about $15.3 million, and 34 commitments were for OYP administered programs totaling about $14.6 million, according to GAO.

Notification by telegram to a grantee that a proposal will be funded by the Department is not an extraordinary procedure. During the period from October 1, 1980 to mid-January when the new Administration took office, several circumstances impeded our progress in making fully executed awards in a more timely manner. First, there was the uncertainty within the Department over the exact amount of funds Congress had made available for expenditure in FY 81. Congress passed two short-term Continuing Appropriations Resolutions during the four-month period of FY 81 that I was ONP Administrator. Second, the election results in November slowed down staff output. There was a pervasive "wait and see" attitude because employees were anticipating that the new Administration would make several changes in the policies that had been enacted under the Carter Administration. Third, the Thanksgiving, Christmas, and New Year's holidays further slowed our operations. Moreover, it was impossible to get a quorum for the Sole Source Board, which reviewed and approved sole source contracts, until after the New Year's holiday. Given our already inadequate staff levels, these circumstances I have just discussed only worsened the situation.

It is important for the Committee to understand that of the 18 telegrams sent out for ONP-administered programs, only one was sent out on January 19, and this was not a new award. It was for renewal of a program for Senior Citizens' services on an Indian reservation in Wisconsin. Some telegrams for ONP-administered programs were sent out as early as October 1st.

Of the 70 telegrams sent out for both ONP and OYP administered grants, some of the ONP-administered grants were signed by my Deputy and others by me personally. Our signatures may also be found on some commitment telegrams for programs administered by the Office of Youth Programs because my Deputy and I served as contract officers for OYP and all other major components of the Employment and Training Administration, except the Office of Policy Evaluation and Research which has its own contract services unit.

It is important to understand the distinction between my role as contract officer and signatory for OYP and other ETA offices, and my role as contract and program officer for ONP. My signature on OYP contracts and grants or letters or telegrams of commitment was basically ministerial. In the case of OYP, I did not have any responsibility for negotiating the contract, making the decision to fund the contract or monitoring contract performance. All of this was done by OYP staff under the supervision of the Administrator of OYP. In the case of ONP, all of the functions involved in making

a grant or contract award, and monitoring it was conducted by ONP staff under my supervision.

4. In conclusion, Mr. Chairman and Members of this Committee, let me say this. These GAO reports cannot be considered authoritative or useful documents for those who are seriously interested in understanding the decisions that were made, or for improving the management and administrative practices of the Office of National Programs. This Committee deserves better and more reliable information than it received from these two reports. The GAO reports did not address the basic problems in the Office. Nowhere in the GAO reports is there any acknowledgment of the problems of staff shortages. Neither do the reports mention the need for staff training. Unless these basic problems are addressed, the Office will continue to be plagued by management and administrative problems.

The best evidence of this is the fact that, under the new Administration, serious management problems have already occurred. For example, the procedure for making awards under the youth program for migrant and seasonal farmworkers was so poorly managed and replete with procedural violations, that the entire competitive grant awards process had to be repeated, even though 55 grantees had been notified by telegram that they either would or would not receive grants. Those grantees then had to be notified that the selection process had to be repeated. The grants should have been

selected and awarded by October 1, 1981. In fact, none of the FY 82 grants and contracts that should have been awarded on October 1st have been awarded. The entire National program system is in a state of chaos and confusion. Grantees do not know when they will be funded or in what amounts.

Moreover, rather than increasing the staff or providing staff training, Mr. Angrisani and the Reagan Administration are implementing a reduction in force that will decimate the already inadequate staff at ONP.

Furthermore, nowhere in the GAO report is there any acknowledgment of the fact that many of the most serious problems involved in the Administration of ONP grants and contracts emerged from sources outside of ONP. This office was under extreme pressure from the Congress which, through language in the Act itself and legislative reports, required ONP to administer each program differently. This requires separate sets of regulations, and for example, Indian programs must be administered by a separate organizational unit. Because of this, ONP's staff is not interchangeable. The Congress kept adding new programs and earmarking funds for specific programs and projects. We received more Congressional correspondence and visits than any other program office in the Department.

Mr. Chairman there were extreme pressures on my office. I realize our administration was not perfect. But despite the complexities of the office and pressures we faced, I am glad I had this opportunity, and I am very proud of the record we established -- a record which will show that:

- We provided more employment and training opportunities for poor Indians on reservations and in Alaskan-native villages than anyone else ever did.
- We provided more employment and training opportunities for migrant and seasonal farmworkers than anyone else ever did.
- We provided more jobs for low-income senior citizens than anyone ever did.
- We created more employment and training opportunities for Handicapped workers than anyone else ever did.
- We provided more employment and training opportunities for women and minorities in the skilled trades than anyone else ever did.
- We created more funding opportunities for Black and Hispanic community-based organizations than ever before in the history of the Department of Labor.
- We provided more contract opportunities for minority-owned business firms than ever before.

- We appointed the first Indian office director, the first Hispanic office director, and the first women GS-14 supervisors.
- We tripled the number of labor organizations founded by ONP.
- We increased the number of private business firms and employer associations from only 8 in 1976 to more than 200 by 1980.

Mr. Chairman and Members of this Committee, if you are seriously interested in understanding and improving management and administrative practices in the Office of National Programs, you will commission a study that would be performed by competent management and research experts who would approach the project in an objective fashion.

I stand ready to help the Committee in any way possible. I would now be happy to answer any questions you might have.

The CHAIRMAN. We appreciate the patience of everybody here. With that, we will recess these hearings and study the record as much as we can.

[Whereupon, at 3:48 p.m., the committee recessed, to reconvene at the call of the Chair.]

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